

Abu Dhabi Ship Building PJSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI SHIP BUILDING PJSC

Report on the Audit of the Consolidated Financial Statements

Qualified opinion

We have audited the consolidated financial statements of Abu Dhabi Ship Building PJSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for qualified opinion

Trade and other payables as at 31 December 2019 include project accruals amounting to AED 75,821 thousand. During the course of our audit, we noted weaknesses in the Company's internal controls over the project accrual process. Accordingly, we were unable to satisfy ourselves on the existence and completeness of the project accruals and whether any adjustments to project accruals, related cost and revenue are necessary.

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

Emphasis of matter

We draw attention to the notes 6 and 7 to the consolidated financial statements, which state that as of 31 December 2019, the Group has net outstanding balances of contract assets and trade receivables amounting to AED 264,420 thousand and AED 411,863 thousand, respectively (net of provision for expected credit losses of AED 31,350 thousand and AED 63,742, respectively), of which AED 135,845 thousand and AED 217,628 thousand, respectively is outstanding for more than 1 year. Most of the long outstanding balances pertain to contracts and work orders with one customer and its related entities. The recoverability of the majority of the long outstanding balances due from that customer is significantly dependent upon the finalization and execution of an amendment to an existing contract with that customer. Our opinion is not qualified in respect of this matter.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 March 2019.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI SHIP BUILDING PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Recognition of revenue from ship building and repair services contracts

A significant portion of the Group's revenues are derived from ship building and repair services contracts and revenue on such contracts is recognised over time as performance obligations are fulfilled over time. As disclosed in note 16 to the consolidated financial statements, during the year 2019, the Group has earned AED 319,730 thousand (2018: AED 453,507 thousand) revenue from ship building and repair services contracts.

This area was important to our audit due to significant estimates involved in the determination of stage of completion and measurement of progress towards the satisfaction of performance obligations and estimating costs to complete on each contract.

How our audit addressed the area of focus

We obtained an understanding and walked through the Group's controls over the revenue and cost recognition process to assess the design of the key controls in place.

Our substantive audit procedures included the following, amongst others:

- review of the contracts and service orders to evaluate management's assessment of performance obligations in accordance with IFRS 15;
- obtaining an understanding of the performance and status of the contracts through discussions with project teams (management's specialists) and finance team;
- obtaining cost estimation schedules approved by project teams and verified the costs to complete by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date;
- evaluated Group's positions through examination of customer and subcontractor correspondences, contract amendments, variation orders and milestone acceptances; and
- review of correspondence from legal advisors and minutes of the key meetings to corroborate management's assessment of claims and penalties recorded.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

ABU DHABI SHIP BUILDING PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matter

Recoverability of contract assets and trade receivables

As at 31 December 2019, the Group has significant balances of contract assets and trade receivables and the recoverability thereof has been assessed as a key audit matter. As disclosed in notes 6 and 7, an amount of AED 31,350 thousand (2018: AED 65,720 thousand) and AED 63,742 thousand (2018: AED 46,340 thousand) has been recognised as a provision for Expected Credit Loss ("ECL") against contract assets and trade receivables respectively in accordance with IFRS 9.

This area was important to our audit due to significant estimates involved in the recoverability assessment of long outstanding trade receivables and contract assets. Significant estimates made by management include, amongst others, probability of customers' default, loss given default, exposure at default, expected dates of collection and discount rates.

How our audit addressed the area of focus

Our audit procedures included the following, amongst others:

- obtaining an understanding of the Group's process for estimating ECL and assessed the appropriateness of the ECL methodology against the requirements of IFRS 9;
- assessing the reasonableness of management's key assumptions and judgements made in determining the ECL including the segmenting of trade receivables and contract assets, selection of ECL model and macroeconomic factors;
- testing key inputs into the model and compared these to historical data;
- assessing reasonableness of forward-looking factors used by the Group by corroborating with publicly available information; and
- verifying billings post year end and ensured that these were in line with contractual terms where applicable as they related to unbilled work in progress at the reporting date.

Refer notes 6 and 7 to the consolidated financial statements which discloses the significant judgement made by the management in relation to recoverability of these balances, which is significantly dependent, for the majority of the long outstanding balances, upon the finalization and execution of an amendment to an existing contract.

Other information

Other information consists of the information included in Group's 2019 Annual Report, Corporate governance report, Message from the Chairman and Management Discussion and Analysis other than the consolidated financial statements and our auditor's report thereon. We obtained the Message from the Chairman and Management Discussion and Analysis prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2019 Annual Report and Corporate governance report after the date of our auditor's report. Management is responsible for the other information.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

ABU DHABI SHIP BUILDING PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information continued

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 obtained prior to the date of the 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.

Responsibilities of the management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

ABU DHABI SHIP BUILDING PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

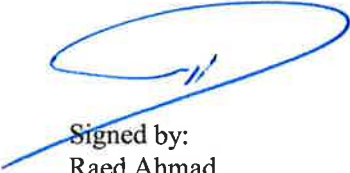
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

ABU DHABI SHIP BUILDING PJSC continued

Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the consolidated financial information included in the Message from the Chairman and Management Discussion and Analysis is consistent with the books of account and records of the Group;
- v) based on the information that has been made available to us, the Group has not purchased or invested in any shares or stocks during the financial year ended 31 December 2019;
- vi) note 21 reflects the material related party transactions and the terms under which they were conducted;
- vii) there were no social contribution made during the year; and
- viii) 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 2019, any of the applicable provisions of its Articles of Association or of the UAE Federal Law No. (2) of 2015 which would have a material impact on its activities or its consolidated financial position as at 31 December 2019.



Signed by:
Raed Ahmad
Partner
Ernst & Young
Registration No 811


30 March 2020
Abu Dhabi

Abu Dhabi Ship Building PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 AED '000	2018 AED '000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	3	192,370	216,331
Intangible assets	4	1,332	2,227
Right-of-use assets	2.2	38,068	-
Advances to suppliers	7	<u>12,120</u>	<u>21,767</u>
		243,890	240,325
Current assets			
Inventories	5	19,679	15,743
Contract assets	6	264,420	316,991
Trade and other receivables	7	444,088	360,317
Cash and bank balances	8	<u>4,909</u>	<u>4,909</u>
		733,096	697,960
TOTAL ASSETS		<u>976,986</u>	<u>938,285</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	9	211,992	211,992
Statutory reserve	10	88,718	88,718
Accumulated losses		<u>(59,730)</u>	<u>(66,647)</u>
Equity attributable to owners of the parent		240,980	234,063
Non-controlling interests		<u>(138)</u>	<u>(138)</u>
Total equity		<u>240,842</u>	<u>233,925</u>
Non-current liabilities			
Employees' end of service benefits	11	20,941	24,617
Advances from customers	12	25,032	25,448
Lease liabilities	2.2	<u>29,492</u>	<u>-</u>
		75,465	50,065
Current liabilities			
Trade and other payables	13	185,208	210,133
Advances from customers	12	83,049	105,666
Lease liabilities	2.2	18,148	-
Bank overdrafts	14	288,877	338,496
Term loan	15	<u>85,397</u>	<u>-</u>
		660,679	654,295
Total liabilities		<u>736,144</u>	<u>704,360</u>
TOTAL EQUITY AND LIABILITIES		<u>976,986</u>	<u>938,285</u>


 Dr. Fahad Saif Harhara Al Yafei
 Chairman of the Board


 David Massey
 Acting Chief Executive Officer


 Mariam Al Moosawi
 Acting Chief Financial Officer

The attached notes 1 to 28 form part of these consolidated financial statements.

Abu Dhabi Ship Building PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 AED '000	2018 AED '000 <i>(Restated)</i>
Contract revenue	16	319,730	453,507
Contract costs	17	(204,157)	(309,925)
GROSS PROFIT		115,573	143,582
General and administrative expenses	18	(90,484)	(108,785)
Depreciation and amortization	3,4,2.2	(27,120)	(31,505)
Impairment losses on financial assets	6,7	(3,638)	(71,480)
Impairment of property, plant and equipment	3	-	(55,806)
Finance costs		(10,182)	(7,272)
Other income, net	19	<u>12,058</u>	<u>16,593</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(3,793)</u>	<u>(114,673)</u>
Attributable to:			
Equity holders of the parent		(3,793)	(114,673)
Non-controlling interest		<u>-</u>	<u>-</u>
		<u>(3,793)</u>	<u>(114,673)</u>
BASIC AND DILUTED LOSS PER SHARE (AED)	20	<u>(0.02)</u>	<u>(0.54)</u>

The attached notes 1 to 28 form part of these consolidated financial statements.

Abu Dhabi Ship Building PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	<i>Attributable to the equity holders of the Parent</i>					<i>Total AED'000</i>
	<i>Share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Accumulated losses AED'000</i>	<i>Equity attributable to owners of the parent AED'000</i>	<i>Non- controlling interests AED'000</i>	
Balance at 1 January 2018 as previously reported	211,992	88,718	201,097	501,807	(131)	501,676
Adjustment on adoption of IFRS 15	-	-	(33,236)	(33,236)	(7)	(33,243)
Adjustment on adoption of IFRS 9	-	-	(25,602)	(25,602)	-	(25,602)
Correction of prior period error (note 27.1)	-	-	(62,434)	(62,434)	-	(62,434)
Balance at 1 January 2018 (restated)	211,992	88,718	79,825	380,535	(138)	380,397
Loss and total comprehensive loss for the year (restated) (note 27.2)	-	-	(114,673)	(114,673)	-	(114,673)
Dividends paid (note 9.1)	-	-	(31,799)	(31,799)	-	(31,799)
Balance at 31 December 2018 (restated)	<u>211,992</u>	<u>88,718</u>	<u>(66,647)</u>	<u>234,063</u>	<u>(138)</u>	<u>233,925</u>
Balance at 1 January 2019 (restated)	211,992	88,718	(66,647)	234,063	(138)	233,925
Correction of prior period error (note 27.2)	-	-	10,710	10,710	-	10,710
Balance at 1 January 2019 (restated)	211,992	88,718	(55,937)	244,773	(138)	244,635
Loss and total comprehensive loss for the year	-	-	(3,793)	(3,793)	-	(3,793)
Balance at 31 December 2019	<u>211,992</u>	<u>88,718</u>	<u>(59,730)</u>	<u>240,980</u>	<u>(138)</u>	<u>240,842</u>

The attached notes 1 to 28 form part of these consolidated financial statements.

Abu Dhabi Ship Building PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	<i>Notes</i>	2019 AED '000	2018 AED '000 <i>(Restated)</i>
OPERATING ACTIVITIES			
Loss for the year		(3,793)	(114,673)
Adjustments:			
Depreciation and amortization	3,4	26,918	31,505
Depreciation of right-of-use assets	2.2	9,088	-
Provision for employees' end of service benefits	11	3,401	5,475
Impairment of property, plant and equipment	3	-	55,806
(Reversal of) / allowance for expected credit losses on contract assets	6	(8,067)	36,441
(Reversal of) / allowance for expected credit losses on trade receivables and provision of loss against advances to suppliers		(1,536)	25,968
(Reversal of) / provision for obsolete and slow moving inventories	5	(28)	1,065
Finance costs		12,489	7,272
Loss on retirement of property, plant and equipment	3	<u>-</u>	<u>541</u>
		38,472	49,400
Working capital adjustments:			
Inventories		(3,908)	3,398
Contract assets		82,303	(37,267)
Trade and other receivables and advances to suppliers		(95,631)	(47,642)
Trade and other payables		(12,231)	(145,718)
Advance from customers		(23,033)	(16,701)
Cash used in operations		(14,028)	(194,530)
Employees' end of service benefits paid	11	<u>(7,077)</u>	<u>(8,279)</u>
Net cash flows used in operating activities		<u>(21,105)</u>	<u>(202,809)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(2,062)	(16,353)
Purchase of intangible assets	4	<u>-</u>	<u>(442)</u>
Net cash flows used in investing activities		<u>(2,062)</u>	<u>(16,795)</u>
FINANCING ACTIVITIES			
Additions to bank borrowings	15	85,397	-
Finance costs paid		(10,095)	(7,272)
Repayment of lease liabilities	2.2	(2,516)	-
Dividends paid	9.1	<u>-</u>	<u>(31,799)</u>
Net cash flows from (used in) financing activities		<u>72,786</u>	<u>(39,071)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		49,619	(258,675)
Cash and cash equivalents at 1 January		(333,587)	<u>(74,912)</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	<u>(283,968)</u>	<u>(333,587)</u>

The attached notes 1 to 28 form part of these consolidated financial statements.

Abu Dhabi Ship Building PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1 ACTIVITIES

Abu Dhabi Ship Building PJSC (the “Company”) was established by Emiri Decree No. 5 of 1995 on 12 July 1995. The Company’s registered office address is P.O. Box 8922, Abu Dhabi, United Arab Emirates.

The Company’s ordinary shares are listed on the Abu Dhabi Securities Exchange.

The Company and its subsidiaries (together referred to as the “Group”) are engaged primarily in the construction, maintenance, repair and overhaul of commercial and military ships and vessels.

The principal activities, country of incorporation and operation, and ownership interest of the Company in the subsidiaries are set out below:

<i>Name of subsidiary</i>	<i>Interest (%)</i>		<i>Country of Incorporation</i>	<i>Principal activity</i>
	<i>31 December 2019</i>	<i>31 December 2018</i>		
Abu Dhabi Systems Integration LLC (“ADSI”)	100%	100%	UAE	Import and commissioning of integrated electronic systems and computer programs
Gulf Logistics and Naval Support LLC (“GLNS”)	100%	100%	UAE	Provision of naval support services
Safwa Marine L.L.C.	100%	100%	UAE	Trading of ships and boats
ADSB Investments Limited	100%	100%	UAE	Holding of investments
Frontiers Industrial Investment LLC	99%	99%	UAE	System integration and technology development and implementation
High Speed Craft Company LLC	100%	100%	UAE	Marine machine and equipment repairing and maintenance

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorized for issuance in accordance with a resolution of the Board of Directors on 30 March 2020.

2 FUNDAMENTAL ACCOUNTING CONCEPT

During the year 2019, the Group incurred net loss amounting to AED 3,793 thousand and as of 31 December 2019, the Group has accumulated losses of AED 59,730 thousand. Further, the Group is dependent upon bank borrowings to finance its operations. These factors indicate the existence of a material uncertainty which may cast doubt on the Group’s ability to continue as a going concern, however, the consolidated financial statements have been prepared on a going concern based on the following:

- Group’s cash flows and profitability are expected to be improved in the future through new projects recently awarded or in the process of being awarded; and
- significant amount of cash is expected to be collected from Group’s major customer, once an amendment to an existing contract is finalized and executed during the year 2020.

2.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”) and applicable requirements of the UAE Federal Law No. (2) of 2015.

The consolidated financial statements of the Group have been prepared on the historical cost basis.

The consolidated financial statements have been presented in United Arab Emirates Dirhams (“AED”), which is the functional currency of the Company and the presentation currency of the Group, all values have been rounded to the nearest thousand (AED ‘000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated financial statements of the Group represent the financial statements of the Company and its subsidiaries mentioned in note 1.

2.2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Significant accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new standards, interpretations and amendments effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Annual improvements 2015-2017 cycle

- IFRS 3 Business Combinations
- IFRS 11 Joint Arrangements
- IAS 12 Income Taxes
- IAS 23 Borrowing Costs

The Group applied, for the first time, IFRS 16 Leases. The nature and effect of these changes are disclosed below. The other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

Impact on adoption of IFRS 16

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) continued

Impact on adoption of IFRS 16 continued

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	<i>AED'000</i>
Assets	
Right-of-use assets (land)	47,156
Prepayments	(1,378)
Accruals	<u>1,984</u>
Total assets	<u>47,762</u>
Liabilities	
Lease liabilities	<u>47,762</u>
Total liabilities	<u>47,762</u>
Total adjustment on equity:	
Retained earnings	-
Non-controlling interests	<u>-</u>
	<u>-</u>

Nature of the effect of adoption of IFRS 16

The Group has various lease contracts, where prior to the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. The leased asset was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under 'Trade and other receivables' and 'Trade and other payables' respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) continued

Nature of the effect of adoption of IFRS 16 continued

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018 (AED'000)	55,641
Incremental borrowing rate as at 1 January 2019	5.9%
Discounted operating lease commitments at 1 January 2019 (AED'000)	47,762
Adjustment of commitments relating to leases of low value assets (AED'000)	<u>-</u>
Lease liabilities as at 1 January 2019 (AED'000)	<u>47,762</u>

Amounts recognised in the consolidated statement of financial position and comprehensive income

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

	<i>Right-of-use Assets (land) AED'000</i>	<i>Lease liabilities AED'000</i>
As at 1 January 2019	47,156	47,762
Depreciation expense*	(9,088)	-
Interest expense	-	2,394
Payments	<u>-</u>	<u>(2,516)</u>
As at 31 December 2019	<u>38,068</u>	<u>47,640</u>

*Depreciation expense of AED 8,886 thousand has been allocated to contract costs.

Lease liabilities is analysed in the consolidated statement of financial position as follows:

	<i>31 December 2019 AED'000</i>
Current	18,148
Non-current	<u>29,492</u>
Total	<u>47,640</u>

2.3 FUTURE CHANGES IN ACCOUNTING POLICIES – STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards/ amendments to standards which were issued up the date of issuance of these consolidated financial statements and are not yet effective for the year ended 31 December 2019 have not been applied while preparing these consolidated financial statements. The Group does not expect that the adoption of these standards / amendments will have a material impact on its consolidated financial statements:

- IFRS 17: Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- IFRS 9/IFRS 7/IAS 39 Interest rate benchmark reforms (Amendments)
- Amendments to IAS 1 and IAS 8: Definition of Material
- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)
- The conceptual framework for financial reporting

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

While applying the accounting policies as stated in note 2.5, management of the Group 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.

Key sources of estimation of uncertainty

The following are 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.

Useful lives of property, plant and equipment

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

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Allowance for obsolete inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventories were AED 36,241 thousand (2018: AED 32,399 thousand), with an allowance for old and obsolete inventories of AED 16,562 thousand (2018: AED 16,656 thousand). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognized in the consolidated statement of comprehensive income.

Allowance for Expected Credit Losses (ECL)

The Group uses a provision matrix to calculate Lifetime ECLs for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Key sources of estimation of uncertainty continued

Allowance for Expected Credit Losses (ECL) continued

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.

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.

At the reporting date, gross trade receivables, were AED 475,605 thousand (2018: AED 385,188 thousand) with an allowance for expected credit losses amounting to AED 63,742 thousand (2018: AED 46,340 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

At the reporting date, gross contract assets, were AED 295,770 thousand (2018: AED 382,711 thousand) with an allowance for expected credit losses amounting to AED 31,350 thousand (2018: AED 65,720 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

The Group has determined the expected credit loss on bank balances to be insignificant considering that the counterparty banks are investment grade category and has a low probability of default and loss at given default.

The Group has determined the expected credit loss on due from related parties balances to be immaterial considering the fact that these have low probability of default and loss at given default is minimal.

Management has assessed future expected recovery dates of trade receivables and contract assets. Most of the long outstanding balances pertain to contracts and work orders with one customer and its related entities. The recoverability of the major balances due from that customer is significantly dependent upon the finalization and execution of an amendment to an existing contract with that customer. Management expects this amendment to be finalized and executed during the year 2020.

Estimation of total costs of construction contracts

At the reporting date, the Group is required to estimate the costs to complete on its construction contracts. This requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include potential claims by subcontractors and cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the period in which the estimates are revised. When the expected contract costs exceeds the total anticipated contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts. The Group uses its projects and commercial team to estimate the cost to complete of these contracts. Factors such as delays in expected completion date, changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on regular basis.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy).

2.5 SIGNIFICANT ACCOUNTING POLICIES

Revenue from contracts with customers

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

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

The Group satisfies a performance obligation and recognizes revenue over the period of time, if one of the following criteria is met:

- a) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
- b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

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

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to a contract liability.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Construction contracts

Management assesses construction contracts and considers IFRS 15 guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to the customer and the timing of the related payments.

The Group primarily has two types of construction contracts: (1) naval ship building and (2) small boats construction.

Revenue from the naval ship building construction contracts is recognised over time based on the criteria that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance obligation completed to date. The Group becomes entitled to invoice customers for construction contracts based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will recognise a 'contract asset' for any work performed.

The Group uses the input method to measure the progress towards complete satisfaction of these performance obligations under IFRS 15 Revenue from Contracts with Customers. The complete satisfaction of the performance obligation is determined based on the proportion of contract costs incurred for work performed up to the end of the reporting period relative to the estimated total contract costs. The contract costs recognised at the end of the reporting period is equal to the actual costs incurred to date with the corresponding revenue and margin recognised in proportion to the work completed.

For certain small boat construction contracts, when the Group does not have an enforceable right to receive payment for work done as construction progresses, revenue is recognized when control of the goods has been transferred to the customer, being the point in time of delivery.

Contract modifications are accounted as a separate contract when the scope of the contract increases because of the additions of promised goods or services that are distinct and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling process of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

Contract liabilities represents the obligation to transfer goods or services to a customer for which consideration has been received from the customer. Contract assets represents the right to consideration in exchange for goods or services that have been transferred to a customer.

An asset is recognised for the costs incurred to fulfil a contract only if those costs are directly related to a contract, the costs generate or enhance resources of the Group that will be used in satisfying a performance obligation in the future and the costs are expected to be recovered. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. The Group assesses contract assets for impairment in accordance with IFRS 9 *Financial Instruments*.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

Repairs and services

Revenue from fixed price contracts for the repair of ships and vessels is recognised based on the percentage of completion on the basis of total costs incurred to date to estimated total costs.

Revenue from cost plus contracts for the repair of commercial and military ships and vessels is recognised by applying the margin allowed per the respective contracts to the cost incurred to date.

Services

Revenues from services are considered as distinct on the basis of below:

- The customer benefits from the service on its own or together with other resources that are readily available to the customer; and
- The Group's promise to transfer the services to the customer is separately identifiable.

Revenue from contracts relating to services is recognised over time since the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group considers the best measure of progress towards complete satisfaction of the performance obligation over time is a cost-based input method and it recognises revenue on this basis. In case of variable efforts or inputs, the performance obligation is measured at the cost plus margin.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Buildings and structures	
- Concrete	30 - 40 years
- Steel	20 - 30 years
- Prefabricated and other structures	10 years
- Other small structures	5 years
Production and other equipment	2-25 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of comprehensive income as the expense is incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the consolidated statement of comprehensive income when the asset is derecognized.

Assets under construction are recorded at cost and represents costs based on contractual payments for the design, development, construction and commissioning of the Group and those other costs incurred during the development stage directly attributable to the construction of the Group. Assets under construction are transferred to the appropriate asset category and depreciated in accordance with the Group's policies when construction of the asset is completed and commissioned.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in consolidated statement of comprehensive income in the period in which they are incurred.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and its determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash-generating units' recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

Financial instrument

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition as financial assets at fair value through profit or loss, fair value through OCI or amortized cost. All financial assets are recognized initially at fair value plus in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets continued

Initial recognition and measurement continued

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- a) Financial assets at amortised cost;
- b) Financial assets at fair value through OCI with recycling of cumulative gains and losses;
- c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition; and
- d) Financial assets at fair value through profit or loss.

The Group do not have any assets which are classified in categories b, c and d.

Cash and cash equivalents

Cash and cash equivalents which include cash on hand, cash at banks and bank overdrafts, are classified as financial assets at amortised cost.

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets continued

Impairment of financial assets continued

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

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities consist of trade and other payables, bank overdrafts, term loan and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification. The category of financial liabilities most relevant to the Group is loans and borrowings.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial liabilities continued

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, and are determined on weighted average basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

Fair value measurement

The Group measures financial instruments, such as financial assets through other comprehensive income, at fair value at each consolidated statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- *Level 1:* Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- *Level 2:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- *Level 3:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Lands	3-8 years
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If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Leasing continued

The Group as lessee continued

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets include computer software with an estimated useful life of 4 years.

Employees' end of service benefits

The Group provides for end of service benefits of its non-UAE national employees in accordance with UAE labour law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for UAE citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

Current versus non-current classification

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

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

All other assets are classified as non-current.

Abu Dhabi Ship Building PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Current versus non-current classification continued

A liability is current when:

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

The Group classifies all other liabilities as non-current.

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings and structures AED'000</i>	<i>Production and other equipment AED'000</i>	<i>Assets under construction AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2019	320,354	204,322	5,092	529,768
Additions	-	-	2,062	2,062
Transfers	1,400	5,362	(6,762)	-
Retirement	-	(150)	-	(150)
At 31 December 2019	<u>321,754</u>	<u>209,534</u>	<u>392</u>	<u>531,680</u>
Accumulated depreciation and impairment:				
At 1 January 2019	157,404	154,404	1,629	313,437
Charge for the year	16,359	9,664	-	26,023
Related to retirement	-	(150)	-	(150)
Transfers	287	1,342	(1,629)	-
At 31 December 2019	<u>174,050</u>	<u>165,260</u>	<u>-</u>	<u>339,310</u>
Net carrying amounts:				
At 31 December 2019	<u>147,704</u>	<u>44,274</u>	<u>392</u>	<u>192,370</u>
Cost:				
At 1 January 2018	317,755	236,545	3,885	558,185
Additions	-	-	16,353	16,353
Retirement	(1,360)	(43,410)	-	(44,770)
Transfers	3,860	11,286	(15,146)	-
Reclassification	99	(99)	-	-
At 31 December 2018	<u>320,354</u>	<u>204,322</u>	<u>5,092</u>	<u>529,768</u>
Accumulated depreciation and impairment:				
At 1 January 2018	138,731	132,502	-	271,233
Charge for the year	16,571	14,056	-	30,627
Related to retirement	(1,076)	(43,153)	-	(44,229)
Impairment for the year*	3,098	51,079	1,629	55,806
Reclassification	80	(80)	-	-
At 31 December 2018	<u>157,404</u>	<u>154,404</u>	<u>1,629</u>	<u>313,437</u>
Net carrying amounts:				
At 31 December 2018	<u>162,950</u>	<u>49,918</u>	<u>3,463</u>	<u>216,331</u>

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31 December 2019

3 PROPERTY, PLANT AND EQUIPMENT continued

*During 2018, the Group has performed an impairment assessment of its floating dock and auxiliary assets which belong to the Group's Commercial ship repair segment. As a result, the Group recognised an impairment loss of AED 55,806 thousand based on a valuation performed using market comparable approach to determine the recoverable amount. The fair value of the floating dock as of 31 December 2018 has been arrived on the basis of valuations performed by an independent valuer based on recent market prices adjusted for the estimated costs of disposal considering industry average. The fair value measurement performed was considered to be Level 3 as the adjustments to the quoted prices of the comparable assets are significant to the measurement. These adjustments include capacity, age and pricing discount. During 2019, the management assessed impairment and concluded that the carrying amount of the floating dock is recoverable based on the recent comparable prices.

4 INTANGIBLE ASSETS

	<i>Computer software</i>	
	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>
Cost:		
At 1 January	16,250	24,818
Additions	-	442
Retirement	<u>-</u>	<u>(9,010)</u>
At 31 December	<u>16,250</u>	<u>16,250</u>
Accumulated amortisation:		
At 1 January	14,023	22,155
Charge for the year	895	878
Related to retirement	<u>-</u>	<u>(9,010)</u>
At 31 December	<u>14,918</u>	<u>14,023</u>
Net carrying amounts:		
At 31 December	<u>1,332</u>	<u>2,227</u>

5 INVENTORIES

	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>
Goods for sale	3,128	3,128
Work in progress	10,254	5,898
Raw materials and consumables	<u>22,859</u>	<u>23,373</u>
	36,241	32,399
Less: provision for obsolete and slow moving items	<u>(16,562)</u>	<u>(16,656)</u>
	<u>19,679</u>	<u>15,743</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5 INVENTORIES continued

The movements of the provision for obsolete and slow moving items are as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
At 1 January	16,656	15,671
Additions	23	1,065
Reversals	(51)	-
Write-off	<u>(66)</u>	<u>(80)</u>
	<u>16,562</u>	<u>16,656</u>

6 CONTRACT ASSETS

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Value of work executed	9,112,951	8,789,038
Progress billings received and receivable	<u>(8,869,655)</u>	<u>(8,494,497)</u>
	<u>243,296</u>	<u>294,541</u>

The contract work in progress is presented as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Contract assets, net	264,420	316,991
Billings in excess of value of work in progress (note 13)	<u>(21,124)</u>	<u>(22,450)</u>
	<u>243,296</u>	<u>294,541</u>

Contract work in progress as at 31 December 2019 is stated net of allowance for expected credit losses of AED 31,350 thousand (2018: AED 65,720 thousand). The movements on the allowance are as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
At the beginning of the year	65,720	39,265
Charge for the year	-	36,441
Reversals	(8,067)	-
Write-offs	(4,638)	(9,986)
Transfer of allowance to advances paid to suppliers	(2,982)	-
Transfer of allowance to trade receivables (note 7) *	<u>(18,683)</u>	<u>-</u>
At the end of the year	<u>31,350</u>	<u>65,720</u>

*This represents the allowance related to the amounts billed to customers during the year.

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31 December 2019

6 CONTRACT ASSETS continued

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group 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.

The management of the Group 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. Refer note 2.4 to the consolidated financial statements where significant estimate and judgement relating to ECLs and future recovery dates have been disclosed.

7 TRADE AND OTHER RECEIVABLES

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Trade receivables	475,605	385,188
Less: allowance for expected credit losses	<u>(63,742)</u>	<u>(46,340)</u>
	411,863	338,848
Advances paid to suppliers*	26,213	14,830
Prepayments and other receivables	<u>6,012</u>	<u>6,639</u>
	<u>444,088</u>	<u>360,317</u>

*Advances paid to suppliers are analysed in the consolidated statement of financial position as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Current	26,213	14,830
Non-current	<u>12,120</u>	<u>21,767</u>
Total**	<u>38,333</u>	<u>36,597</u>

**This amount is stated net of provision amounting to AED 2,681 thousand (2018: nil).

Allowance for expected credit losses

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables which is a product of probability of default and loss given default on the carrying amount of trade and other receivables.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7 TRADE AND OTHER RECEIVABLES continued

Allowance for expected credit losses continued

At 31 December 2019, the analysis of trade receivables is as follows:

	Total AED '000	Past due			
		0-30 days AED '000	31 -90 days AED '000	91 -180 days AED '000	>180 days AED '000
2019					
Trade receivables	475,605	29,760	155,599	33,413	256,833
Lifetime ECL	<u>(63,742)</u>	<u>(2,923)</u>	<u>(9,587)</u>	<u>(961)</u>	<u>(50,271)</u>
Net trade receivables	<u>411,863</u>	<u>26,837</u>	<u>146,012</u>	<u>32,452</u>	<u>206,562</u>
2018					
Trade receivables	385,188	12,934	85,664	49,691	236,899
Lifetime ECL	<u>(46,340)</u>	<u>(570)</u>	<u>(1,520)</u>	<u>(6,389)</u>	<u>(37,861)</u>
Net trade receivables	<u>338,848</u>	<u>12,364</u>	<u>84,144</u>	<u>43,302</u>	<u>199,038</u>

The movement in the allowance for expected credit losses during the year was as follows:

	2019 AED '000	2018 AED '000
At the beginning of the year	46,340	22,288
Charge for the year	3,638	35,039
Recoveries*	(4,873)	(10,799)
Write offs	(46)	(188)
Transfer of allowance from contract assets (note 6)	<u>18,683</u>	-
At the end of the year	<u>63,742</u>	<u>46,340</u>

* Recoveries mainly pertains to collections during the year.

Refer note 2.4 to the consolidated financial statements where significant estimate and judgement relating to ECLs and future recovery dates have been disclosed.

8 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are comprised for the following:

	2019 AED '000	2018 AED '000
Cash on hand	-	4
Bank balances	<u>4,909</u>	<u>4,905</u>
	<u>4,909</u>	<u>4,909</u>
Less: bank overdrafts (note 14)	<u>(288,877)</u>	<u>(338,496)</u>
Cash and cash equivalents	<u>(283,968)</u>	<u>(333,587)</u>

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31 December 2019

9 SHARE CAPITAL

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
<i>Authorised, issued and fully paid</i>		
211,992,000 ordinary shares of AED 1 each	<u>211,992</u>	<u>211,992</u>

9.1 Dividends

On 15 March 2018, the Shareholders approved during the Annual General Meeting the distribution of 15% cash dividends amounting to AED 31,799 thousand.

10 STATUTORY RESERVE

In accordance with the UAE Federal Law number (2) of 2015 concerning Commercial Companies and the Company's Articles of Association, 10% of profit for each year has been transferred to a non-distributable legal reserve. Such transfers are required to be made until the balance of the statutory reserve equals one half of the Company's paid up share capital. Such reserve is not available for distribution as dividends to the Shareholders.

11 EMPLOYEES' END OF SERVICE BENEFITS

The movements on the provision for employees' end of service benefits are as follows:

	<i>2019</i> <i>AED '000</i>	<i>2018</i> <i>AED '000</i>
At 1 January	24,617	27,421
Charge for the year	3,401	5,475
Paid during the year	<u>(7,077)</u>	<u>(8,279)</u>
At 31 December	<u>20,941</u>	<u>24,617</u>

12 ADVANCES FROM CUSTOMERS

Advances from customers mainly represent advances received for projects and are applied against billings when raised. Advances from customers are analysed in the consolidated statement of financial position as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Current	83,049	105,666
Non-current	<u>25,032</u>	<u>25,448</u>
Total	<u>108,081</u>	<u>131,114</u>

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13 TRADE AND OTHER PAYABLES

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i> <i>(Restated)</i>
Trade payables	30,834	7,063
Project accruals	75,821	108,416
Other liabilities	53,663	71,866
Billings in excess of value of work in progress (note 6)	21,124	22,450
Other payables	<u>3,766</u>	<u>338</u>
	<u>185,208</u>	<u>210,133</u>

The average credit period on purchases of goods is 60 days (2018: 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14 BANK OVERDRAFTS

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Bank overdrafts	<u>288,877</u>	<u>338,496</u>

The overdraft facilities were obtained from several commercial banks and carry interest at prevailing market rates.

As at 31 December 2019, the Group has AED 17 million (2018: AED 104 million) as available undrawn overdraft facilities.

During the year, the Group transformed an overdraft amounting of AED 85,397 thousand into a loan with local bank.

15 TERM LOAN

On 21 April 2019, the Group transformed an overdraft into a short-term loan from a local bank amounting to AED 85,397 thousand. The short-term loan is an existing sub-limit of its overdraft facility with the same bank. The short-term loan is repayable at maturity date which is 6 months from the date of drawdown. The facility carries interest at prevailing market rate. The carrying amount of the loan as at 31 December 2019 was AED 85,397 thousand (2018: nil). Subsequent to the year end, the Group has negotiated extension of the repayment of term loan until April 2020.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

16 CONTRACT REVENUE

The Group 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 revenue streams. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

	2019 <i>AED'000</i>	2018 <i>AED'000</i>
Revenue from construction contracts	15,257	89,667
Revenue from rendering of services	<u>304,473</u>	<u>363,840</u>
	<u>319,730</u>	<u>453,507</u>

16.1 Timing of revenue recognition

	2019 <i>AED'000</i>	2018 <i>AED'000</i>
Services transferred at the point in time	7,534	14,298
Services transferred over time	<u>312,196</u>	<u>439,209</u>
	<u>319,730</u>	<u>453,507</u>

Geographical markets

All revenues are generated from United Arab Emirates.

17 CONTRACT COSTS

	2019 <i>AED'000</i>	2018 <i>AED'000</i> <i>(Restated)</i>
Material and subcontract costs	90,721	161,144
Staff costs	89,469	119,448
Other costs *	<u>23,967</u>	<u>29,333</u>
	<u>204,157</u>	<u>309,925</u>

* This includes finance costs of AED 2,307 thousand (2018: nil).

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 <i>AED'000</i>	2018 <i>AED'000</i> <i>(Restated)</i>
Material	564	1,653
Staff costs	65,068	74,054
Other costs	<u>24,852</u>	<u>33,078</u>
	<u>90,484</u>	<u>108,785</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

19 OTHER INCOME, NET

This mainly includes the reversals of allowance for expected credit losses on trade receivables and contract assets and foreign exchange gains and losses.

20 BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the year attributable to the equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

The following reflects the loss and share data used in the loss per share computations:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i> <i>(Restated)</i>
Loss for the year attributable to the equity holders of the parent (AED '000)	<u>(3,793)</u>	<u>(114,673)</u>
Weighted average number of ordinary issued throughout the period ('000)	<u>211,992</u>	<u>211,992</u>
Basic and diluted loss per share (AED)	<u>(0.02)</u>	<u>(0.54)</u>

As of 31 December 2019, the Group has not issued any instruments that have an impact on loss per share when exercised.

21 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Group's major shareholders, Directors and key management personnel, and businesses controlled by them and their families or over which they exercise a significant influence in financial and operating decisions. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Pricing policies and terms of these transactions are approved by the Group's management.

The remuneration of directors and other members of key management during the period was as follows:

	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i>
Key management compensation:		
Salaries, bonuses and other benefits	5,823	11,050
Post-employment benefits	<u>73</u>	<u>233</u>
	<u>5,896</u>	<u>11,283</u>
Due from a related party (included in trade and other receivables)	<u>1,158</u>	<u>769</u>
Due to a related party (included in trade and other payables)	<u>1,658</u>	<u>1,127</u>

These balances resulted from existing secondment agreement of certain employees from both parties in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

22 CONTINGENCIES AND CAPITAL COMMITMENTS

The Group's bankers have issued, in the normal course of business, letters of guarantee, performance bond and letters of credit limited to AED 1,208 million (2018: AED 1,187 million) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the period end.

Capital commitments

The authorised capital expenditure contracted at the end of the reporting period but not provided for is AED 2.7 million (2018: AED 5.7 million)

Contingencies

Prior to 2019, a re-baseline in one of the Company's projects has been performed. The Company delivered the vessel within revised schedule, however, maintained the vessel for an additional period during which open actions and additional requirements were undertaken. As per the contract terms, the customer may levy liquidated damages for this additional period. Management believes the chance of such a levy are remote as of 31 December 2019. Accordingly, no provision has been recorded by the Group for any levy in current or prior years.

23 SEGMENT INFORMATION

The Group has internal management reporting and budgeting based on four reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the management reviews internal reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

- Ship building, includes construction of military and commercial vessels
- Military support services, includes upgrades, maintenance, repairs and overhaul (MRO) of military vessels and integrated support services
- Commercial ship repair, includes upgrades, maintenance, repairs and overhaul (MRO) of commercial vessels
- Combat systems integration which includes import and commissioning of integrated systems and computer programs

Information regarding the results of each reportable segment is included below. Performance is measured on segment profit as included in the internal management reports that are reviewed by the Board of Directors.

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23 SEGMENT INFORMATION continued

Segment information about the Group's operations for the year ended 31 December 2019 and 2018 is presented below:

	Ship Building AED'000	Military Support Services AED'000	Commercial Ship Repair AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Year ended 31 December 2019							
Contract revenue	18,442	244,695	49,776	6,817	-	-	319,730
Contract costs	(361)	(153,901)	(45,390)	(4,505)	-	-	(204,157)
GROSS PROFIT	18,081	90,794	4,386	2,312	-	-	115,573
General and administrative expenses*	(11,006)	(23,463)	(18,144)	(7,833)	(33,676)	-	(94,122)
Depreciation, amortization and impairment	(1,184)	(6,250)	(5,593)	-	(14,093)	-	(27,120)
Finance costs	-	-	-	-	(10,182)	-	(10,182)
Other income	-	2,797	-	-	9,261	-	12,058
Segment profit / (loss)	<u>5,891</u>	<u>63,878</u>	<u>(19,351)</u>	<u>(5,521)</u>	<u>(48,620)</u>	-	<u>(3,793)</u>
Year ended 31 December 2018 (Restated)							
Contract revenue	84,426	281,308	63,891	25,366	-	(1,484)	453,507
Contract costs	(48,770)	(184,136)	(62,012)	(16,491)	-	1,484	(309,925)
GROSS PROFIT	35,656	97,172	1,879	8,875	-	-	143,582
General and administrative expenses*	(32,063)	(60,835)	(42,129)	(17,236)	(28,002)	-	(180,265)
Depreciation, amortization and impairment	(3,494)	(2,810)	(59,728)	-	(21,279)	-	(87,311)
Finance costs	-	-	-	-	(7,272)	-	(7,272)
Other income	-	9,071	-	-	7,522	-	16,593
Segment profit / (loss)	<u>99</u>	<u>42,598</u>	<u>(99,978)</u>	<u>(8,361)</u>	<u>(49,031)</u>	-	<u>(114,673)</u>

*This includes impairment losses on financial assets

The segment assets and liabilities and capital expenditure for the year then ended are as follows:

	Ship Building AED'000	Military Support Services AED'000	Commercial Ship Repair AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
As at 31 December 2019							
Assets	<u>219,755</u>	<u>474,065</u>	<u>110,528</u>	<u>130,843</u>	<u>123,427</u>	<u>(81,632)</u>	<u>976,986</u>
Liabilities	<u>140,300</u>	<u>65,582</u>	<u>46,651</u>	<u>44,034</u>	<u>512,323</u>	<u>(72,746)</u>	<u>736,144</u>
Capital expenditure	<u>229</u>	<u>714</u>	<u>425</u>	-	<u>694</u>	-	<u>2,062</u>
As at 31 December 2018 (Restated)							
Assets	<u>234,936</u>	<u>431,878</u>	<u>77,012</u>	<u>93,712</u>	<u>181,040</u>	<u>(80,293)</u>	<u>938,285</u>
Liabilities	<u>177,481</u>	<u>90,837</u>	<u>20,473</u>	<u>33,013</u>	<u>453,963</u>	<u>(71,407)</u>	<u>704,360</u>
Capital expenditure	<u>1,863</u>	<u>5,817</u>	<u>3,463</u>	-	<u>5,652</u>	-	<u>16,795</u>

During the year 2019, the Group generated revenue of AED 261,366 thousand (2018: AED 370,814 thousand) from a customer individually exceeding 10% of Group's revenue. This revenue related to ship building, military support services and combat system integration segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 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 2.5 to the consolidated financial statements.

Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return on equity. The Group monitors capital using a gearing ratio, which is net debt divided by total equity (excluding hedging reserve and non-controlling interests) plus net debt. The calculation of the Group's gearing ratio as follows: The Group's overall strategy remains unchanged from 2018.

The calculation of gearing ratio is as follows:

	2019 AED'000	2018 AED'000 (Restated)
Trade and other payables	185,208	210,133
Bank borrowings	85,397	-
Cash and cash equivalents	<u>283,968</u>	<u>333,587</u>
Net debt	<u>554,573</u>	<u>543,720</u>
Total equity attributable to owners of the parent	<u>240,980</u>	<u>234,063</u>
Total equity and net debt	<u>795,553</u>	<u>777,783</u>
Gearing ratio	<u>70%</u>	<u>70%</u>

Financial risk management

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

Foreign currency risk management

The Group's major contracts with customers as well as with some of the major suppliers and subcontractors are denominated in currencies other than AED and therefore, the Group has foreign exchange transaction exposure.

As the UAE dirham is pegged to the USD, balances in USD are not considered to represent significant currency risk. Management is therefore of the opinion that the Group's exposure to the currency risk is limited to Euro.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 FINANCIAL INSTRUMENTS continued

Foreign currency risk management continued

Foreign currency sensitivity analysis

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i> <i>(Restated)</i>	<i>2019</i> <i>AED'000</i>	<i>2018</i> <i>AED'000</i> <i>(Restated)</i>
Euro	174,230	188,535	143,068	143,757
US Dollar	40,211	45,012	47,486	75,772
Others	<u>555</u>	<u>569</u>	<u>2,013</u>	<u>7</u>
	<u>214,996</u>	<u>234,116</u>	<u>192,567</u>	<u>219,536</u>

At 31 December 2019, if the exchange rate of the currencies other than the USD had increased/decreased by 10% against the UAE Dirham, with all other variables held constant, the Group's loss for the year would have been higher/lower by AED 3 million (2018: higher/lower by AED 4.5 million) mainly as a result of foreign exchange gain or loss on translation of Euro.

Interest rate risk management

The Group is exposed to cash flow interest rate risk on its bank borrowings which are subject to floating interest rates.

The following table demonstrates the sensitivity of the Group's loss for the year to a reasonably possible change in interest rates, with all other variables held constant.

	<i>Effect on loss</i> <i>AED '000</i>
2019	
+50 increase in basis point	1,871
-50 decrease in basis point	(1,871)
2018	
+50 increase in basis point	1,692
-50 decrease in basis point	(1,692)

Credit risk management

Credit risk in relation to the Group refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade and other receivables and bank balances.

The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing creditworthiness of counterparties on a routine and regular basis. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

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24 FINANCIAL INSTRUMENTS continued

Credit risk management continued

Concentration of credit risk

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group executes contracts mainly for GHQ-UAE Armed Forces and as at 31 December 2019, contract assets, trade receivables and advances received from GHQ-UAE Armed Forces amounted to a net receivable position of AED 536 million (2018: AED 465 million). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

The credit risk on liquid funds is limited because the counterparties are reputable local banks closely monitored by the regulatory body. The carrying amount reflected in these consolidated financial statements represents the Group's maximum exposure to credit risk for such loans and receivables.

Trade and other receivables and balances with banks are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the management of the group, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and committed borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The below tables summarises the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial assets and liabilities based on the earliest date on which the Group can be required to pay or collect. The table includes principal cash flows only as interest cash flows were insignificant. Maturity profile of non-derivative financial assets and liabilities at the end of the reporting period is as follows:

	<i>Carrying amount AED</i>	<i>Within 1 year AED</i>	<i>2-5 years AED</i>	<i>After 5 years AED</i>
2019				
Trade and other payables	185,208	185,208	-	-
Bank borrowings	374,274	374,274	-	-
Lease liabilities	<u>47,640</u>	<u>18,148</u>	<u>23,630</u>	<u>5,862</u>
	<u>607,122</u>	<u>577,630</u>	<u>23,630</u>	<u>5,862</u>
2018				
Trade and other payables	210,133	210,133	-	-
Bank borrowings	338,496	338,496	-	-
	<u>548,629</u>	<u>548,629</u>	-	-

Except for bank borrowings and lease liabilities, all financial liabilities of the Group are non-interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, trade and other receivables and contract assets. Financial liabilities consist of trade and other payables, bank overdrafts, term loan and lease liabilities.

The fair values of financial instruments are not materially different from their carrying value.

26 COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications have no effect on the previously reported loss or equity of the Group.

The reclassification is summarized in note 27.

27 PRIOR PERIOD ERRORS

27.1 During the year 2018, following a detailed review of a specific contract which is close to completion, the Group identified that contract costs were understated by AED 62,434 thousand in periods prior to 1 January 2018. The Group concluded that it was not possible to determine the exact amounts relating to each period and exactly which periods were affected as the contract commenced in 2003, and accordingly the balances as at 1 January 2018 were restated in the consolidated financial statements for the year ended 31 December 2018.

27.2 During the year 2019, the Group identified excess accruals amounting to AED 21,185 thousand pertaining to contracts completed and delivered prior to 1 January 2019 and duplicate accruals recorded in 2018. In accordance with the requirements of IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group is required to correct the prior period error retrospectively by restating the comparative amounts for the prior periods presented in which the error occurred.

For certain excess accruals and duplicate accruals, amounting to AED 10,475 thousand, the Group determined that those were relating to the year 2018. Consequently, these amounts were corrected in the comparative financial information and financial information relating to 2018 was restated.

For the remaining excess accruals amounting to AED 10,710 thousand, the Group concluded that it was not possible to determine the exact amounts relating to each period and exactly which periods were affected. In accordance with IAS 8, if it is impracticable to determine the period-specific effects of the prior period error, the error shall be corrected in the respective accounts for the earliest period for which retrospective restatement is practicable. Consequently, the balances as at 1 January 2019 were restated in the consolidated financial statements for the year ended 31 December 2019.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

27 PRIOR PERIOD ERRORS continued

Impact of prior year errors on the consolidated statement of financial position as at 31 December 2018:

	<i>At 31 December 2018 as previously reported AED'000</i>	<i>Restatement AED'000</i>	<i>At 31 December 2018 restated AED'000</i>
Accumulated losses	(77,122)	10,475	(66,647)
Trade and other payables	220,608	(10,475)	210,133

Impact of prior year errors on the consolidated statement of financial position as at 1 January 2019:

	<i>At 1 January 2019 as previously reported AED'000</i>	<i>Restatement AED'000</i>	<i>At 1 January 2019 restated AED'000</i>
Accumulated losses	(77,122)	21,185	(55,937)
Trade and other payables	220,608	(21,185)	199,423

Impact of prior year errors on the consolidated statement of comprehensive income for the year ended 31 December 2018:

	<i>2018 as previously reported AED'000</i>	<i>Restatement AED'000</i>	<i>Reclassification (note 26) AED'000</i>	<i>2018 restated AED'000</i>
Contract cost	(292,006)	5,965	(23,884)	(309,925)
General and administrative expenses	(137,179)	4,510	23,884	(108,785)
Loss and total comprehensive loss for the year	(125,148)	10,475	-	(114,673)

28 SUBSEQUENT EVENTS

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The outbreak of COVID 19 has had an impact on demand for oil and petroleum products. Recent global developments in March 2020 have caused further volatility in commodity markets.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements. These developments could impact the Group future financial results, cash flows and financial condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

28 **SUBSEQUENT EVENTS** continued

The Group's operations, cash flows and financial condition could be negatively affected due to the following:

- if employees are quarantined as the result of exposure to COVID 19, this could result in disruption of operations, supply chain delays, trade restrictions and impact on economic activity;
- similarly, travel restrictions or operational issues resulting from the rapid spread of COVID 19 in a part of the world in which the Group has significant operations may have a material adverse effect on the Group's business and results of operations; and
- continued decline in oil prices could have an impact, including reduced government spending, which could impact the Group's results.