

**Godfrey Phillips Middle East DMCC  
Dubai - United Arab Emirates**

**Report and financial statements  
for the period from 22 March 2015  
(date of incorporation) to 31 March 2016**

## **Godfrey Phillips Middle East DMCC**

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## INDEPENDENT AUDITOR'S REPORT

**The Shareholder**  
**Godfrey Phillips Middle East DMCC**  
**Dubai Multi Commodities Centre**  
**Dubai**  
**United Arab Emirates**

### Report on the Financial Statements

We have audited the accompanying financial statements of **Godfrey Phillips Middle East DMCC, Dubai, United Arab Emirates** (the "Company"), which comprise the statement of financial position as at 31 March 2016, and statement of comprehensive income, statement of changes in equity and the statement of cash flows for the period from 22 March 2015 (date of incorporation) to 31 March 2016, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Cont'd.....

**INDEPENDENT AUDITOR'S REPORT (continued)**

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Godfrey Phillips Middle East DMCC, Dubai, United Arab Emirates** as at 31 March 2016 and its financial performance and its cash flows for the period from 22 March 2015 (date of incorporation) to 31 March 2016, in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 2 to the financial statements which states that these financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the period from 22 March 2015 (date of incorporation) to 31 March 2016, the Company incurred a loss of USD 109,851 and as at 31 March 2016 has accumulated losses of USD 109,851 and the current liabilities exceed current assets by USD 93,907. The continuation of the Company's operation is dependent upon future profitable operations and the continued financial support from Godfrey Phillips India Limited, Parent Company. The Parent Company has provided an undertaking that it will continue to provide or arrange for such financial support as would be necessary for the Company to meet its obligations as they fall due in the foreseeable future.

Our opinion is not qualified with respect to this matter.

**Report on Other Legal and Regulatory Requirements**

Also, in our opinion, all necessary books and records were maintained in accordance with the provisions of Implementing Regulations 1/3 issued by the Dubai Multi Commodities Centre.

29 May 2016

*Deloitte & Touche*



Statement of financial position  
as at 31 March 2016

	Notes	2016 USD
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property and equipment	6	51,963
<b>Current assets</b>		
Trade and other receivables	8	2,525,267
Cash and cash equivalents	9	1,640
<b>Total current assets</b>		<b>2,526,907</b>
<b>Total Assets</b>		<b>2,578,870</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	10	54,496
Loss for the period		(109,851)
<b>Total equity (deficit )</b>		<b>(55,355)</b>
<b>Non-current liabilities</b>		
Provision for employees' end -of -service indemnity	11	13,411
<b>Current liabilities</b>		
Accrued expenses and other payables	12	368,450
Due to related parties	7	1,954,344
Bank borrowing	13	298,020
<b>Total current liabilities</b>		<b>2,620,814</b>
<b>Total Liabilities</b>		<b>2,634,225</b>
<b>Total Equity and Liabilities</b>		<b>2,578,870</b>

*Rajl Bhatti*  
.....  
Director

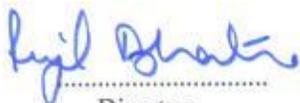
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Director

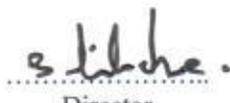
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The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016

	Note	Period ended 31 March 2016 USD
Revenue	14	12,623,028
Cost of sales		(11,853,397)
<b>Gross profit</b>		<b>769,631</b>
Selling, general and administration expenses	15	(878,842)
Interest expense		(966)
Other income		326
<b>Loss for the period</b>		<b>(109,851)</b>
Other comprehensive income		-
<b>Total comprehensive loss for the period</b>		<b>(109,851)</b>

  
.....  
Director

  
.....  
Director

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Statement of changes in equity  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016

	Share capital USD	Loss for the period USD	Total USD
Share capital introduced	54,496	-	54,496
Total comprehensive loss for the period	-	(109,851)	(109,851)
<b>Balance at 31 March 2016</b>	<b>54,496</b>	<b>(109,851)</b>	<b>(55,355)</b>

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**Statement of cash flows**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016**

	Period ended 31 March 2016 USD
<b>Cash flows from operating activities</b>	
Loss for the period	(109,851)
Adjustments for:	
Depreciation of property and equipment	8,107
Provision for employees' end-of-service indemnity	13,411
Interest expense	966
	<hr/>
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>(87,367)</b>
Trade and other receivables	(2,525,267)
Accrued expenses and other payables	368,450
Due to related parties	1,897,014
	<hr/>
<b>Net cash used in operations</b>	<b>(347,170)</b>
Interest paid	(966)
	<hr/>
<b>Net cash used in operating activities</b>	<b>(348,136)</b>
	<hr/>
<b>Cash flows from investing activity</b>	
Purchase of property and equipment	(2,740)
	<hr/>
<b>Net cash used in investing activity</b>	<b>(2,740)</b>
	<hr/>
<b>Cash flows from financing activities</b>	
Share capital introduced	54,496
Bank borrowing	298,020
	<hr/>
<b>Net cash from financing activities</b>	<b>352,516</b>
	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>1,640</b>
Cash and cash equivalents at inception	-
	<hr/>
<b>Cash and cash equivalents at the end of the period (Note 9)</b>	<b>1,640</b>
	<hr/> <hr/>

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

**Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016**

**1. Status and principal activities**

Godfrey Phillips Middle East DMCC (the "Company") was incorporated with limited liability in the Dubai Multi Commodities Centre, Dubai, United Arab Emirates on 22 March 2015 under commercial license No JLT - 67761 issued by the Dubai Multi Commodities Centre, Government of Dubai.

The Company is 100% owned by Godfrey Phillips India Limited (the "Parent Company").

The principal activity of the Company is trading of tobacco and cigarettes, confectionary and chocolate and tea.

These are the first financial statements of the Company for the period from 22 March 2015 (date of incorporation) to 31 March 2016, hence no comparative figures have been presented.

**2. Going concern**

The financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the period from 22 March 2015 (date of incorporation) to 31 March 2016, the Company incurred a loss of USD 109,851 and as at 31 March 2016 has accumulated loss of USD 109,851 and current liabilities exceeds current assets by USD 93,907. The continuation of the Company's operation is dependent upon future profitable operations and the continued financial support from the Parent Company. The Parent Company has provided an undertaking that it will continue to provide or arrange for such financial support as would be necessary for the Company to meet its obligations as they fall due in the foreseeable future.

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

**3.1 New and revised IFRS in issue but not yet effective and not early adopted**

The Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
• Amendments to IAS 1 <i>Presentation of Financial Statements</i> relating to Disclosure initiative	1 January 2016
• Amendments to IFRS 11 <i>Joint arrangements</i> relating to accounting for acquisitions of interests in joint operations	1 January 2016

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**Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) ) to 31 March 2016 (continued)**

**3. Application of new and revised International Financial Reporting Standards (“IFRS”)  
(continued)**

**3.1 New and revised IFRS in issue but not yet effective and not early adopted (continued)**

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> relating to clarification of acceptable methods of depreciation and amortization	1 January 2016
• Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> relating to bearer plants	1 January 2016
• Amendments to IAS 27 <i>Separate Financial Statements</i> relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
• Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 28 <i>Investment in Associates and Joint Ventures</i> relating to applying the consolidation exception for investment entities	1 January 2016
• Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5, IFRS 7 and IAS 19.	1 January 2016
• Finalised version of IFRS 9 [IFRS 9 <i>Financial Instruments</i> (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

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**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**3. Application of new and revised International Financial Reporting Standards (“IFRS”)**  
 (continued)

**3.1 New and revised IFRS in issue but not yet effective and not early adopted** (continued)

<u><i>New and revised IFRS</i></u>	<u><i>Effective for annual periods beginning on or after</i></u>
<ul style="list-style-type: none"> <li>IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</li> </ul>	1 January 2018
<ul style="list-style-type: none"> <li>IFRS 16 <i>Leases</i>: IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.</li> </ul>	Effective date deferred indefinitely
<ul style="list-style-type: none"> <li>Amendments to IAS 7 <i>Statement of Cash Flows</i> requiring disclosure of changes in liabilities arising from financing activities</li> </ul>	1 January 2017
<ul style="list-style-type: none"> <li>Amendments to IAS 12 <i>Income Taxes</i> regarding recognition of deferred tax assets for unrealized.</li> </ul>	1 January 2017

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company’s financial statements for the year beginning 1 April 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Company in the year of initial application.

Management anticipates that IFRS 9 and IFRS 15 will be adopted in the Company’s financial statements for the annual year beginning 1 April 2018 and IFRS 16 will be adopted for the annual year beginning 1 April 2019. The application of IFRS 9, IFRS 15 and IFRS 16 may have significant impact on amounts reported and disclosures made in the Company’s financial statements in respect of revenue from contracts with customers, the Company’s financial assets and financial liabilities and leases. However, it is not practical to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

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Notes to the financial statements

for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)

3. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

3.1 New and revised IFRS in issue but not yet effective and not early adopted (continued)

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<ul style="list-style-type: none"> <li>• IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</li> </ul>	1 January 2018
<ul style="list-style-type: none"> <li>• IFRS 16 <i>Leases</i>: IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.</li> </ul>	Effective date deferred indefinitely
<ul style="list-style-type: none"> <li>• Amendments to IAS 7 <i>Statement of Cash Flows</i> requiring disclosure of changes in liabilities arising from financing activities</li> </ul>	1 January 2017
<ul style="list-style-type: none"> <li>• Amendments to IAS 12 <i>Income Taxes</i> regarding recognition of deferred tax assets for unrealized.</li> </ul>	1 January 2017

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company’s financial statements for the year beginning 1 April 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Company in the year of initial application.

Management anticipates that IFRS 9 and IFRS 15 will be adopted in the Company’s financial statements for the annual year beginning 1 April 2018 and IFRS 16 will be adopted for the annual year beginning 1 April 2019. The application of IFRS 9, IFRS 15 and IFRS 16 may have significant impact on amounts reported and disclosures made in the Company’s financial statements in respect of revenue from contracts with customers, the Company’s financial assets and financial liabilities and leases. However, it is not practical to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

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**Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**4. Significant accounting policies**

**Statement of compliance**

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

**Basis of preparation**

The financial statements are prepared in accordance with the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. A summary of the significant accounting policies are set out below.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Property and equipment**

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, as follows:

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Motor vehicles	Deloitte & Touche	8
Furniture and fixtures	P. O. Box 4254	10
Office equipment	Dubai - U.A.E.	5
Computer hardware		3

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

The useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the pattern of economic benefits expected to flow to the Company through the use of items of property and equipment.

**Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**4. Significant accounting policies (continued)**

**Property and equipment (continued)**

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

**Impairment of tangible assets**

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

**Foreign currency transactions**

For the purpose of the financial statements, the results and financial position of the Company is expressed in United States Dollars which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss.

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**Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**4. Significant accounting policies (continued)**

**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 Company as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**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.

All other borrowing costs are recognised in profit or loss in the year they are incurred.

**Employee benefits**

An accrual is made for the estimated liability for employees' entitlement to annual leave as a result of services rendered by eligible employees up to the end of the year.

Provision is also made for the full amount of end-of-service indemnity due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave is disclosed as a current liability, while the provision relating to end-of-service indemnity is disclosed as a non-current liability.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

*Financial assets*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**4. Significant accounting policies (continued)**

**Financial instruments (continued)**

*Financial assets (continued)*

*Effective interest method*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables (but excluding prepayments) and cash and cash equivalents are measured at amortised cost using the effective interest method, less any impairment.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)

4. Significant accounting policies (continued)

Financial instruments (continued)

*Financial assets* (continued)

*Impairment of financial assets* (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

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

*Financial liabilities and equity instruments*

*Classification as debt or equity*

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

*Equity instruments*

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

*Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**4. Significant accounting policies (continued)**

**Financial instruments (continued)**

*Financial liabilities and equity instruments (continued)*

*Other financial liabilities*

Other financial liabilities, including bank borrowings, accrued expenses and other payables (but excluding advances from customers), and amounts due to related parties are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

*Derecognition of financial liabilities*

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

**Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

**5. Critical accounting judgment and key sources of estimation uncertainty**

While applying the accounting policies as stated in Note 4 to the financial statements, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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.

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**Notes to the financial statements  
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**5. Critical accounting judgment and key sources of estimation uncertainty (continued)**

*Critical judgment in applying the Company's accounting policies*

The following is the critical judgment, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that has the most significant effect on the amounts recognised in the financial statements.

*Revenue recognition*

Management has considered the detailed criteria for the recognition of revenue from the sale of goods as set out in International Accounting Standard (IAS) 18 *Revenue*, and in particular whether the Company is acting as a principal or as an agent. Since the Company has the primary responsibility for providing the goods to the customer and/or for fulfilling the order (i.e. by being responsible for the acceptability of the products or services ordered or purchased by the customer and in the event of a dispute, the customer's primary recourse would be against the Company), the Company has latitude in establishing prices, either directly or indirectly; and the Company bears the customers credit risk for the amount receivable from customers, management is satisfied that the Company is acting as a principal and therefore gross basis of presentation of revenue is appropriate.

*Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

*Allowance for doubtful debts*

The Company does not set up any allowance for doubtful debts as its receivables are secured by advances.

*Useful lives of property and equipment*

Management reviews the residual values and estimated useful lives of property and equipment at the end of each annual reporting period in accordance with International Accounting Standard 16 *Property, Plant and Equipment* and International Accounting Standard 38 *Intangible Assets*. Management determined that current year estimates do not differ from previous estimates based on its review.

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Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)

6. Property and equipment

	Motor vehicles USD	Furniture and fixtures USD	Office equipment USD	Computer hardware USD	Total USD
<b>Cost</b>					
Transfer from a related party (at inception) (Note 7)	36,321	22,364	18,712	4,972	82,369
Additions during the period	-	1,089	-	1,651	2,740
<b>At 31 March 2016</b>	<b>36,321</b>	<b>23,453</b>	<b>18,712</b>	<b>6,623</b>	<b>85,109</b>
<b>Accumulated depreciation</b>					
Transfer from a related party (at inception) (Note 7)	9,364	5,899	6,517	3,259	25,039
Charge for the period	2,873	1,528	2,367	1,339	8,107
<b>At 31 March 2016</b>	<b>12,237</b>	<b>7,427</b>	<b>8,884</b>	<b>4,598</b>	<b>33,146</b>
<b>Carrying amount</b>					
<b>At 31 March 2016</b>	<b>24,084</b>	<b>16,026</b>	<b>9,828</b>	<b>2,025</b>	<b>51,963</b>

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Notes to the financial statements  
for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)

7. Related party transactions

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

At the reporting date, related party balances are as follows:

	2016 USD
<b>Due to related parties</b>	
<i>Parent Company</i>	
Godfrey Phillips India Limited, India.	1,949,939
<i>Entity under common ownership/control</i>	
Beacon Travels Pvt. Ltd, India.	4,405
	<u>1,954,344</u>

The amounts due to related parties are non-interest bearing and have no repayment terms.

The nature of significant related party transactions and the amounts involved were as follows:

	Period ended 31 March 2016 USD
<i>Parent Company</i>	
Purchase of inventories	11,853,397
Property and equipment - net (Note 6)	57,330
Expenses borne by parent company	73,709
Cash transferred at inception	7,296
Deposits paid	5,737
<i>Entities under common ownership/control</i>	
Travelling expenses reimbursed	46,764
	<u>46,764</u>

Compensation to key management personnel is as follows:

	Period ended 31 March 2016 USD
Salaries and other short-term employee benefits	32,943
	<u>32,943</u>

End of service benefits of employees' seconded from the Parent Company are borne by the Parent Company and not recharged to the Company.

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**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**8. Trade and other receivables**

	2016 USD
Trade receivables	2,468,508
Prepayments	27,509
Other receivables	29,250
	<u>2,525,267</u>

The Company's credit period ranges from 30 to 60 days. No interest is charged on past due trade receivables. The Company provides for receivables on a case by case basis based on estimated irrecoverable amounts, determined by reference to past default experience.

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. Of the trade receivable balance at the reporting date, USD 2,128,922 is due from 4 customers. There are no other customers who represent more than 10% of the total balance of trade receivables.

The Company's trade receivables balance is not past due at the reporting date.

**9. Cash and cash equivalents**

	2016 USD
Cash on hand	<u>1,640</u>

**10. Share capital**

	2016 USD
<i>Issued and fully paid:</i>	
200 shares of USD 272.48 (AED 1,000) per share	<u>54,496</u>

**11. Provision for employees' end-of-service indemnity**

	2016 USD
At inception	-
Charge for the period	13,411
<b>Balance at the end of the period</b>	<u>13,411</u>

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Provision for employees' end-of-service indemnity is made in accordance with the U.A.E. Labour law, and is based on current remuneration and cumulative periods of service at the reporting date.

**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**12. Accrued expenses and other payables**

	2016 USD
Advances from customers	326,571
Accrued expenses and other payables	41,879
	<u>368,450</u>

**13. Bank borrowing**

	2016 USD
Bank overdraft	<u>298,020</u>

Bank overdraft carries interest at 4% per annum and is secured by letter of credit issued by Citibank India. The bank overdraft is repayable within one year from the reporting date.

**14. Revenue**

	Period ended 31 March 2016 USD
Sale of cigarettes	10,786,989
Sale of cut tobacco	1,808,560
Others	27,479
	<u>12,623,028</u>

**15. Selling, general and administration expenses**

	Period ended 31 March 2016 USD
Employees' salaries and benefits	477,031
Travel	98,438
Insurance expenses	54,421
Rent expenses (Note 20)	45,913
Legal and professional services	56,750
Advertisement and marketing expenses	22,587
Bank charges	34,572
Depreciation of property and equipment (Note 6)	8,107
Others	81,023
	<u>878,842</u>

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**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**16. Financial instruments**

*(a) 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 and financial liability are disclosed in Note 4 to the financial statements.

*(b) Categories of financial instruments*

	2016 USD
<i>Financial assets</i>	
Trade and other receivables (including cash and cash equivalents) at amortised cost	2,499,398
<i>Financial liabilities</i>	
At amortised cost	2,294,243

*(c) Fair value of financial instruments*

The fair values of financial assets and financial liabilities at period-end approximate their carrying amounts at the reporting date in the statement of financial position.

**17. Financial risk management**

The Company's overall financial risk management program seeks to minimise potential adverse effects to the financial performance of the Company. The management provides principles for overall financial risk management and policies covering specific areas, such as credit risk, currency risk, liquidity risk and interest rate risk.

*(a) Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk is controlled by counterparty limits that are reviewed and approved by the management.

The Company's principal financial assets are cash and cash equivalents and trade and other receivables. The credit risk on liquid funds is limited because the counterparties are reputable banks registered in the country. Further, details of credit risk on trade receivables is discussed in Note 8 to the financial statements.

*(b) Foreign currency risk management*

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

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**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**17. Financial risk management (continued)**

**(b) Foreign currency risk management (continued)**

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in US Dollars or in United Arab Emirates Dirhams to which the Dollar is fixed, except for the following financial assets and financial liabilities:

	2016 US\$'000
<b>Financial liabilities</b>	
INR	145

*Foreign currency sensitivity analysis*

The following table details the Company's sensitivity to a 10% increase and decrease in the USD against the Indian rupee. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the USD strengthens 10% against the relevant currency. For a 10% weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2016 US\$'000
INR	15

This is mainly attributable to the exposure to outstanding payables as of the reporting date.

**(c) Interest rate risk management**

The Company is exposed to interest rate risk as the Company borrows funds at floating interest rates.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's loss for the period ended 31 March 2016 would increase/decrease by USD 1,490. This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

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**Notes to the financial statements**  
**for the period from 22 March 2015 (date of incorporation) to 31 March 2016 (continued)**

**17. Financial risk management (continued)**

**(d) Liquidity risk management**

Liquidity risk refers to the risk that the Company will have difficulty meeting its short-term obligations. Ultimate responsibility for liquidity risk management rests with the management. The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. The Company also has access to funds from its Parent Company to further reduce liquidity risk.

*Liquidity risk tables*

The following table details the Company's remaining contractual maturity for its financial assets and financial liabilities. The table has been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes principal cash flows only.

	Average interest rate	Less than 1 year USD	Total USD
<b>Financial assets</b>			
<b>31 March 2016</b>			
Non-interest bearing instruments	-	2,499,398	2,499,398
		<u>2,499,398</u>	<u>2,499,398</u>
<b>Financial liabilities</b>			
<b>31 March 2016</b>			
Interest bearing instruments	4 %	298,020	298,020
Non-interest bearing instruments	-	1,996,223	1,996,223
		<u>2,294,243</u>	<u>2,294,243</u>

**18. Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the shareholder through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt, which includes borrowing as disclosed in Note 13, cash and cash equivalents and equity, comprising share capital and accumulated losses as disclosed in the statement of financial position.

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Notes to the financial statements  
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19. Non-cash transaction

Non-cash transaction comprise of:

	2016 USD
<b>Cash flow from operating activities</b>	
Transfer of property, plant and equipment from a related party (Notes 6 and 7)	<u>57,330</u>

20. Operating lease commitments

*The company as lessee*

At the reporting date, the Company had no long term non-cancellable operating lease commitments. During the period, an amount of USD 45,913 was recognised in the profit or loss as rent expenses.

21. Approval of the financial statements

The financial statements were approved by the Director on 29 May 2016.

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