

**GODFREY PHILLIPS MIDDLE EAST  
DMCC**

**FINANCIAL STATEMENTS**

**31 MARCH 2019**

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDER OF GODFREY PHILLIPS MIDDLE EAST DMCC**

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Godfrey Phillips Middle East DMCC (the "Company"), which comprise the statement of financial position as at 31 March 2019, statement of comprehensive income, and the statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

*Basis for Opinion*

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

*Responsibilities of management and the Board of Directors for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, applicable provisions of the Articles of Association of the Company and the DMCC Companies Regulations No. (1/03), as amended by DMCC Regulations No 1 of 2007, DMCC Regulations No 1 of 2009 and DMCC Regulations No 1 of 2013 issued by the Government of Dubai, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Company's financial reporting process.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDER OF GODFREY PHILLIPS MIDDLE EAST DMCC (continued)**

#### **Report on the audit of the financial statements (continued)**

##### *Auditor's Responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDER OF GODFREY PHILLIPS MIDDLE EAST DMCC  
(continued)**

**Report on other legal and regulatory requirements**

We also confirm that, in our opinion, the financial statements of the Company have been properly prepared, in all material respects, in accordance with the provisions of the DMCC Companies Regulations No. (1/03), as amended by DMCC Regulations No 1 of 2007, DMCC Regulations No 1 of 2009 and DMCC Regulations No 1 of 2013.

For Ernst & Young

**DRAFT**

Anthony O'Sullivan  
Partner  
Registration No.: 687

\_\_\_\_\_ 2019

Dubai,

United

Arab

Emirates

# Godfrey Phillips Middle East DMCC

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	<i>Notes</i>	<b>2019 USD</b>	<b>2018 USD</b>
Revenue from contracts with customers	3(a)	<b>22,928,168</b>	20,655,449
Cost of sales		<b>(21,112,574)</b>	(19,271,402)
<b>GROSS PROFIT</b>		<b>1,815,594</b>	1,384,047
Other income	3(b)	<b>552</b>	82,642
Selling, general and administrative expenses	4	<b>(1,588,574)</b>	(1,483,346)
Finance costs	5	<b>(35,838)</b>	(45,641)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>191,734</b>	(62,298)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>191,734</b>	(62,298)


The attached notes 1 to 18 form part of these financial statements.

# Godfrey Phillips Middle East DMCC

## STATEMENT OF FINANCIAL POSITION


As at 31 March 2019

	Notes	2019 USD	2018 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Equipment	6	25,258	33,173
Investment in securities	7	19,619	19,619
		<u>44,877</u>	<u>52,792</u>
<b>Current assets</b>			
Inventories	8	64,264	331,136
Accounts receivable and prepayments	9	2,936,355	2,787,180
Bank balances and cash	10	1,637,581	258,143
		<u>4,638,200</u>	<u>3,376,459</u>
<b>TOTAL ASSETS</b>		<u><b>4,683,077</b></u>	<u><b>3,429,251</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11	54,496	54,496
Retained earnings (accumulated losses)		124,946	(66,788)
<b>Total equity (deficiency of assets)</b>		<u><b>179,442</b></u>	<u><b>(12,292)</b></u>
<b>Non-current liability</b>			
Employees' end of service benefits	12	43,058	31,123
<b>Current liabilities</b>			
Contract liabilities and accruals	13	2,473,025	417,082
Bank borrowings	14	-	16,936
Amounts due to related parties	15	1,987,552	2,976,402
		<u>4,460,577</u>	<u>3,410,420</u>
<b>Total liabilities</b>		<u><b>4,503,635</b></u>	<u><b>3,441,543</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>4,683,077</b></u>	<u><b>3,429,251</b></u>

  
Bhisham Wadhera  
Director

  
Amit Kaushal  
Vice-President – International Business

  
Balbir Singh  
Director

  
Abhishek Vaste  
Finance Manager

The attached notes 1 to 18 form part of these financial statements.

# Godfrey Phillips Middle East DMCC

## STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Notes	2019 USD	2018 USD
<b>OPERATING ACTIVITIES</b>			
Profit/ (loss) for the year		191,734	(62,298)
Adjustments:			
Allowance for expected credit losses	4	195,903	4,319
Provision for employees' end of service benefits	12	11,935	11,647
Depreciation	4	9,615	11,082
Finance costs	5	3,078	9,742
Interest income	3	(552)	-
		<u>411,713</u>	<u>(25,508)</u>
Working capital adjustments:			
Inventories		266,872	(224,397)
Accounts receivable and prepayments		(345,078)	1,020,308
Due to related parties		(988,850)	(198,622)
Contract liabilities and accruals		2,055,943	(109,345)
		<u>1,400,600</u>	<u>462,436</u>
Net cash flows from operations			
Employees' end of service benefits paid	12	-	(787)
Finance cost paid		(3,078)	(9,742)
Interest received		552	-
		<u>1,398,074</u>	<u>451,907</u>
<b>Net cash flows from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Disposal of equipment	6	69	-
Purchase of investments securities	7	-	(19,619)
Purchase of equipment	6	(1,769)	(3,319)
		<u>(1,700)</u>	<u>(22,938)</u>
<b>Net cash flows used in investing activities</b>			
<b>INCREASE IN BANK BALANCES AND CASH</b>			
		1,396,374	428,969
Bank balances and cash at 1 April		241,207	(187,762)
<b>BANK BALANCES AND CASH AT 31 MARCH</b>	10	<u><u>1,637,581</u></u>	<u><u>241,207</u></u>

The attached notes 1 to 18 form part of these financial statements.

# Godfrey Phillips Middle East DMCC

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	<i>Share capital USD</i>	<i>Retained earnings USD</i>	<i>Total USD</i>
Balance at 1 April 2017	54,496	(4,490)	50,006
Total comprehensive income for the year	-	(62,298)	(62,298)
Balance at 31 March 2018	54,496	(66,788)	(12,292)
Total comprehensive income for the year	-	191,734	191,734
<b>Balance at 31 March 2019</b>	<b>54,496</b>	<b>124,946</b>	<b>179,442</b>

The attached notes 1 to 18 form part of these financial statements.

# Godfrey Phillips Middle East DMCC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

### 1 ACTIVITIES

Godfrey Phillips Middle East DMCC (the "Company") is a limited liability company registered and incorporated in the United Arab Emirates under Dubai Multi Commodities Center Company Regulation No. (1/03).

The address of the registered office of the Company is at Unit No: AU-11-01-B, Gold Tower (AU), Plot No: JLT-PH1-I3A, Jumeirah Lakes Towers, Dubai, United Arab Emirates.

The Company is a wholly owned subsidiary of Godfrey Phillips India Limited (the "Parent Company"), a company incorporated in India.

The principal activities of the Company comprises of trading in tobacco and cigarettes, confectionery, chocolates and tea.

The financial statements were authorised for issue on 4<sup>th</sup> May 2019.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The financial statements are prepared on a historical cost basis, except for investments in securities that have been measured at fair value. The functional currency of the Company is United States Dollars ("USD") for controlling and monitoring the performance and financial position of the Company and accordingly the financial statements are presented in USD, except where otherwise stated.

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of DMCC Free Zone authority regulations.

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 March 2019, except for the adoption of the following new standards, amendments and interpretations effective for annual periods beginning on or after 1 April 2019.

#### New standards, amendments and interpretations

The Company applied for the first-time certain new standards, amendments and interpretations, which are effective for annual periods beginning on or after 2018. The Company has not early adopted any standards, amendments or interpretations that have been issued but are not yet effective.

- IFRS 9 Financial Instruments: Classification and Measurement, impairment and hedge accounting;
- IFRS 15 Revenue from Contracts with Customers;
- Amendments to IFRS 2 Classification and measurement of Share-based Payment Transactions;
- Amendments to IAS 40 Transfers of Investment Property;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts; and
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**New standards, amendments and interpretations (continued)**

The nature and effect of the changes as a result of adoption of IFRS 9 and IFRS 15 are described below. The other amendments and interpretations apply for the first time in 1 April 2018, but do not have an impact on the financial statements of the Company.

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company adopted IFRS 9 with an initial application date on 1 April 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39.

***Classification and measurement***

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company. The following are the changes in the classification of the Company's financial assets:

Financial assets classified as Available for sale investments have been reclassified as financial assets designated at fair value through OCI (equity instruments).

***Impairment***

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

IFRS 9 requires the Company to measure and recognise expected credit losses on all applicable financial assets and contract assets arising from IFRS 15 'Revenue from Contracts with Customers' e.g. trade receivables and amount due from a related party, either on a 12-month or lifetime expected loss basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables and other receivables.

Considering the fact that majority of the trade receivables are adequately backed up by a credit insurance these have been considered as an integral part of the trade receivables and considered in the calculation of impairment. There was no material impact to the statement of financial position resulting from the Company applying the impairment requirements of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted IFRS 15 using the modified retrospective method of adoption with an initial application date of 1 April 2018. The Company has not restated the comparative information, which continues to be reported under IAS 18.

Based on management's assessment of the contractual arrangements with customers, the adoption of IFRS 15 did not have any significant impact on the financial statements of the Company except for presentation and disclosure requirements.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**Standards, amendments and interpretations issued but not yet effective**

The new standards, amendments and interpretations that are issued as listed below, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company is currently assessing the impact of these standards on the future financial statements and intends to adopt these new and amended standards, if applicable, when they become effective.

IFRS 10	Sale or Contribution of Assets between an investor and its Associate or Joint Venture (the effective date and has been deferred indefinitely, but an entity that early adopts the amendments must apply them prospectively);
IAS 28	
IFRS 16	Leases: Lessees required to recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term (effective for annual periods beginning on or after 1 January 2019). Refer details below;
IFRS 17	Insurance Contracts (effective for reporting periods beginning on or after 1 January 2021);
IFRS 9	Prepayment Features with Negative Compensation (amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted);
IAS 19	Plan Amendment, Curtailment or Settlement (amendments are effective from 1 January 2019, with earlier application permitted);
IAS 28	Long-term interests in associates and joint ventures (amendments are effective from 1 January 2019, with earlier application permitted);

Annual Improvements 2014-2016 Cycle: (issued in December 2016)

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

Annual Improvements 2015-2017 Cycle: (issued in December 2017) (effective from 1 January 2019)

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

Amendments to IFRS 3 – Definition of a Business (effective from 1 January 2020)

Amendments to IAS 1 and IAS 8 – Definition of Material (effective from 1 January 2020).

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### Standards, amendments and interpretations issued but not yet effective (continued)

##### Impact assessment of IFRS 16 Leases

Management has determined that all of its lease arrangements are of short period i.e. not exceeding 12 months period, Management, therefore believes IFRS 16 will not have any impact on the Company's financial statements.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

#### Revenue from contracts with customers (*effective from 1 April 2018*)

Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

##### *Sale of goods*

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

- Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The contracts for the sale of goods provide customers with a right of return in case of damaged goods and goods not of intended quality. The rights of return give rise to variable consideration.

- Rights of return

The Company provide the customer with a right to return the goods in case of damaged products or products with not intended quality. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer. Management has not recognised any refund liability and corresponding right to receive stock as the impact is not significant.

#### Revenue recognition (*effective prior to 1 April 2018*)

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The following revenue recognition criteria must also be met:

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (effective prior to 1 April 2018) (continued)**

*Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

*Interest income (effective from and prior to 1 April 2018)*

Interest income is recognised as the interest accrued using the effective interest rate (EIR) method under which the rate used exactly discounts estimated future cash receipts throughout the expected life of the financial asset to the net carrying amount of the financial asset.

*Commission income (effective from and prior to 1 April 2018)*

Commission income is recognised on an accrual basis when the control is transferred to the customer.

**Value Added Tax (VAT)**

Revenue, expenses and assets are recognised at amounts net of value added tax except:

- where VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or part of the expense items, as applicable.
- where receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

**Equipment**

Equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of the equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision is met.

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

Motor vehicles	8 years
Furniture and fixtures	10 years
Office equipment	5 years
Computers	3 years

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The carrying values of equipment are reviewed for impairment at each reporting date and when events or changes in circumstances indicate that 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 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 equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The Company 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 Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is 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 pre-tax 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 of disposal, recent market transactions are taken into account. 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 companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition and are valued on a weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

**Financial instruments**

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 (effective from 1 April 2018)**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in Revenue from contracts with customers.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

**Initial recognition and measurement (effective from 1 April 2018) (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 Company'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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and bank balances, trade and other receivables and financial assets designated at fair value through OCI (equity instruments).

**Initial recognition and measurement (prior to 1 April 2018)**

Until the previous year, under the provisions of IAS 39, a financial asset was recognised if the Company became a party to the contractual provisions of the instrument.

**Subsequent Measurement (effective from 1 April 2018)**

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Company has no financial assets classified under financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) and Financial assets at fair value through profit or loss..

**Financial assets at amortised cost (effective from 1 April 2018)**

This category is the most relevant to the Company. The Company 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 recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables, bank balances and other receivables.

**Financial assets at amortised cost (prior to 1 April 2018)**

Subsequent to initial recognition, financial assets were measured at amortised cost using the effective interest method, less any impairment losses, unless the financial instruments were classified as either available for sale or FVTPL.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

***Financial assets designated at fair value through OCI (equity instruments) (effective from 1 April 2018)***

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company's financial assets designated at fair value through OCI (equity instruments) includes investment in securities. Financial assets, which were earlier classified as Available for sale investments have been reclassified as financial assets designated at fair value through OCI (equity instruments) as at 31 March 2018.

***Derecognition (effective from 1 April 2018)***

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  - (a) the Company has transferred substantially all the risks and rewards of the asset, or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

***Derecognition (prior to 1 April 2018)***

Financial assets were derecognised if the Company's contractual rights to the cash flows from the financial assets expired or if the Company transferred the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

***Impairment of financial assets (effective from 1 April 2018)***

The Company recognises loss allowances for ECLs on the following financial instruments i.e bank balances, trade receivables and other receivables. The Company measures impairment allowances using simplified approach. Under the simplified approach, impairment allowances are always measured at an amount equal to life time ECL. The Company determines provision for expected credit losses on a case to case basis, which is based on the Company's historical observed default rates adjusted for forward-looking information either with the same party or different parties with similar characteristics like geographical location.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

**Impairment of financial assets (effective from 1 April 2018) (continued)**

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed on a case to case basis. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Impairment of financial assets (prior to 1 April 2018)**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income.
- (b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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

**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 recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accruals, bank borrowings and amounts due to related parties.

**Subsequent measurement**

**Accounts payables and accruals**

Accounts payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs its obligations under the contract.

**Derecognition**

A financial liability is derecognised 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 recognised in the statement of comprehensive income.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Bank balances and cash**

Bank balances and cash in the statement of financial position comprise cash in hand and bank balances.

**Borrowings**

Borrowings are initially recognised at fair value, net of directly attributable transaction costs.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised 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 in finance costs in the statement of comprehensive income.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

**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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed to the statement of comprehensive income.

**Employees' end of service benefits**

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

**Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the functional currency spot rates at the date of the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Fair value measurements**

The fair values of financial instruments measured at amortised cost are disclosed in Note 18. There are no financial or non-financial assets and liabilities that are measured and carried in the statement of financial position at fair value.

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 to by the Company.

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.

The Company 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 financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Company 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 Company has determined classes of assets and liabilities on the basis

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurements (continued)**

**Estimation uncertainty**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The judgments, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

*Provision for expected credit losses of trade receivables*

The Company determines provision for expected credit losses of trade receivables on a case to case basis, which is based on the Company's historical observed default rates adjusted for forward-looking information either with the same customer or different customers with similar characteristics like geographical location.

The Company will calibrate its estimate to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed on a case to case basis.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 17.

*Impairment of 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 anticipated selling prices.

At the end of reporting period, gross inventories were USD 64,264 (2018: USD 331,136), and there is no provision for old and obsolete inventories. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

*Useful lives and residual value of equipment*

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

*Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of

# Godfrey Phillips Middle East DMCC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 3(a) REVENUE FROM CONTRACTS WITH CUSTOMERS

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Revenue from contracts with customers	<u>22,928,168</u>	<u>20,655,449</u>

#### 3.a.i Disaggregated revenue information

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
<b>Geographical markets</b>		
Panama	12,837,458	8,914,002
Belize	2,698,009	5,935,588
Bolivia	1,510,120	434,668
Russia	1,289,668	-
Yemen	1,029,600	522,720
United Arab Emirates	947,399	1,012,622
Libya	437,415	1,628,115
Colombia	378,000	-
Mauritius	284,532	477,840
Grenada W.I	283,130	147,000
Others	1,232,837	1,582,894
	<u>22,928,168</u>	<u>20,655,449</u>

#### Timing of revenue recognition

Revenue from contract with customers recorded at a point in time	<u>22,928,168</u>	<u>20,655,449</u>
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#### 3.a.ii Contract balances

	<i>2019</i>	<i>2018</i>	<i>1 April</i> <i>2017</i>
Trade receivables (Note 9)	<u>2,873,414</u>	<u>2,689,010</u>	<u>3,716,584</u>
Contract liabilities/ Advances received from customers (Note 13)	<u>2,312,040</u>	<u>283,267</u>	<u>458,817</u>

During the year, the Company recognised revenue amounting to USD 283,267 that were included in the contract liabilities as at the beginning of the period.

The Company has not recognised any revenue during the current year from performance obligations satisfied during the previous periods as at the Company recognises revenue at a point in time.

The Company bills and receives payments from customers based on the billing schedule and terms of payment agreed with the customers as mentioned in the contracts with the customers. Contract liabilities relates to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs the obligations under the contract.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**3(a) REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)**

**3.a.iii Performance Obligations**

Information about the Company's performance obligations are summarized below:

The Company is involved in the trading of trading in tobacco and cigarettes, confectionery, chocolates and tea and generates revenue primarily by delivering these materials. The performance obligation is satisfied when control of the goods is transferred to the customer and the payment is generally due within 30 to 60 days from the date of transfer of control of the goods. The contracts with the customers generally do not provide the customers with a right of return except for any defects in the specification of the products, which is considered as an assurance-type warranty and accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the Company returns the defective goods to the suppliers based on the warranty from the supplier.

The amount of consideration for the goods is fixed based on the transaction price agreed with the customers and there are no other promises in the contract with the customers that are determined as separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of the materials, the Company considered the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any) and has concluded that there are no such considerations included in the transaction price. The Company has elected to recognize the cost for freight and shipping when control over the goods are transferred to the customer as an expense in the cost of sales. There are no transactions price allocated to unsatisfied performance obligations as of the reporting date except for advances received from customers to deliver materials and these advances have been disclosed as contract liabilities (note 13).

**3(b) OTHER INCOME**

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Interest income	<b>552</b>	-
Commission income	-	72,482
Others	-	10,160
	<b>552</b>	<b>82,642</b>

**4 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Salaries and staff benefits	<b>669,760</b>	780,139
Allowances for expected credit losses (ECL)/Bad debts written-off (Note 9)	<b>195,903</b>	4,319
Travelling and conveyance expenses	<b>131,081</b>	145,181
Legal and professional fees	<b>120,459</b>	83,316
Marketing expenses	<b>117,526</b>	28,001
Rent expenses (Note 16)	<b>71,687</b>	70,844
Warehousing and import/export charges	<b>38,842</b>	164,632
Insurance expenses	<b>33,834</b>	43,831
Depreciation (Note 6)	<b>9,615</b>	11,082
Other expenses	<b>199,867</b>	152,001
	<b>1,588,574</b>	<b>1,483,346</b>

# Godfrey Phillips Middle East DMCC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

### 5 FINANCE COSTS

	2019 USD	2018 USD
Bank charges	32,760	35,899
Interest on borrowings	3,078	9,742
	<b>35,838</b>	<b>45,641</b>

### 6 EQUIPMENT

	Motor vehicles USD	Furniture and fixtures USD	Office equipment USD	Computers USD	Total USD
Cost:					
At 1 April 2018	36,321	23,453	18,712	9,942	88,428
Additions	-	-	-	1,769	1,769
Disposals	-	-	-	(1,387)	(1,387)
At 31 March 2019	<b>36,321</b>	<b>23,453</b>	<b>18,712</b>	<b>10,324</b>	<b>88,810</b>
Depreciation:					
At 1 April 2018	20,867	11,863	15,994	6,531	55,255
Charge for the year	4,311	2,218	1,782	1,304	9,615
Disposals	-	-	-	(1,318)	(1,318)
At 31 March 2019	<b>25,178</b>	<b>14,081</b>	<b>17,776</b>	<b>6,517</b>	<b>63,552</b>
Net carrying amount: At 31 March 2019	<b>11,143</b>	<b>9,372</b>	<b>936</b>	<b>3,807</b>	<b>25,258</b>

	Motor vehicles USD	Furniture and fixtures USD	Office equipment USD	Computers USD	Total USD
Cost:					
At 1 April 2017	36,321	23,453	18,712	6,623	85,109
Additions	-	-	-	3,319	3,319
At 31 March 2018	<b>36,321</b>	<b>23,453</b>	<b>18,712</b>	<b>9,942</b>	<b>88,428</b>
Depreciation:					
At 1 April 2017	16,552	9,645	12,439	5,537	44,173
Charge for the year	4,315	2,218	3,555	994	11,082
At 31 March 2018	<b>20,867</b>	<b>11,863</b>	<b>15,994</b>	<b>6,531</b>	<b>55,255</b>
Net carrying amount: At 31 March 2018	<b>15,454</b>	<b>11,590</b>	<b>2,718</b>	<b>3,411</b>	<b>33,173</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**7 INVESTMENT IN SECURITIES**

Investment in securities represent investments made during the previous year in the unquoted equity shares of KKM Management Centre Middle East FZE, United Arab Emirates amounting to USD 19,619 (2018: USD 19,619) with percentage of ownership as at 31 March 2019 of 18% (31 March 2018: 18%). The fair value of these investments closely approximates the cost of investment.

**8 INVENTORIES**

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Raw material	<b>64,264</b>	156,513
Goods for resale	-	174,623
	<b>64,264</b>	331,136

Raw materials amounting to USD 64,264 (31 March 2018: USD 156,513), are in the possession of a third party. As at 31 March 2019, no provision is created for old and obsolete inventory (31 March 2018: Nil).

**9 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Trade receivables	<b>2,991,027</b>	2,689,010
Less: Allowance for expected credit losses (ECL)	<b>(117,613)</b>	-
	<b>2,873,414</b>	2,689,010
Advance to suppliers	-	52,459
Prepayments	<b>18,077</b>	21,236
Other receivables	<b>44,864</b>	24,475
	<b>2,936,355</b>	2,787,180

The movement in the provision for impairment against trade receivables is as follows:

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Charge for the year	<b>117,613</b>	4,319
Bad debts written off (Note 4)	-	(4,319)
As at 31 March	<b>117,613</b>	-

Trade receivables are non - interest bearing and are generally on 30 to 60 days' terms.

# Godfrey Phillips Middle East DMCC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

### 9 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As at the reporting date, the ageing of unimpaired trade receivables are as follows:

	<i>Total USD</i>	<i>Neither past due nor impaired USD</i>	<i>Past due but not impaired</i>				
			<i>&lt; 30 days USD</i>	<i>30 – 60 days USD</i>	<i>61 – 90 days USD</i>	<i>91 – 120 days USD</i>	<i>&gt; 120 days USD</i>
<b>2019</b>	<b>2,873,414</b>	<b>1,093,520</b>	<b>1,141,174</b>	<b>12,410</b>	<b>-</b>	<b>505</b>	<b>625,805</b>
<b>2018</b>	<b>2,689,010</b>	<b>159,090</b>	<b>719,732</b>	<b>568,583</b>	<b>339,237</b>	<b>715,568</b>	<b>186,800</b>

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to historic payment track records of the counterparties. Refer note 17 on credit risk of trade receivables, which explains how the Company manages and measures credit quality of trade receivables.

Advances represent payments made to certain suppliers against orders that will be adjusted against future billings by the suppliers.

### 10 BANK BALANCES AND CASH

	<i>2019 USD</i>	<i>2018 USD</i>
Cash in hand	<b>4,217</b>	1,283
Bank balances	<b>1,633,364</b>	256,860
	<b>1,637,581</b>	<b>258,143</b>

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following statement of financial position amounts:

	<i>2019 USD</i>	<i>2018 USD</i>
Bank balances and cash	<b>1,637,581</b>	258,143
Less: Bank overdrafts (Note 14)	-	(16,936)
Cash and cash equivalents	<b>1,637,581</b>	<b>241,207</b>

### 11 SHARE CAPITAL

	<i>2019 USD</i>	<i>2018 USD</i>
<i>Authorised, issued, subscribed and fully paid up:</i>		
200 shares of USD 272.48 each	<b>54,496</b>	54,496

# Godfrey Phillips Middle East DMCC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

### 12 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

	2019 USD	2018 USD
As at 1 April	31,123	20,263
Provided during the year	11,935	11,647
Paid during the year	-	(787)
As at 31 March	43,058	31,123

Labour laws in the United Arab Emirates require employer to provide for long-term employment benefits. This benefit is payable to employee on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years of service. All amounts are unfunded.

### 13 CONTRACT LIABILITIES AND ACCRUALS

	2019 USD	2018 USD
Contract liabilities/Advances received from customers	2,312,040	283,267
Provisions and accruals	160,985	133,815
	2,473,025	417,082

Refer note 17 for the details of the Company's liquidity risk management process.

### 14 BANK BORROWINGS

	2019 USD	2018 USD
Bank overdrafts	-	16,936

The Company had obtained facility from a Commercial bank to meets its working capital requirements. The interest rate on such bank borrowings was 1 month EIBOR + 3.50% per annum (2018: 1 month EIBOR + 3.50% per annum). Bank facilities were secured by stand by letter of credit (SBLC) issued by Citibank, India.

### 15 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent Parent company, key management personnel of the Company and entity controlled, jointly controlled or significantly influenced by such parties.

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

#### *Amounts due to related parties*

	2019 USD	2018 USD
Parent Company	1,960,230	2,957,230
Other related party	27,322	19,172
	1,987,552	2,976,402

Outstanding balances at the year-end arise in the normal course of business are non-interest bearing with no payment terms and settlement occurs generally in cash. There have been no guarantees provided for any related party payables.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**15 RELATED PARTY BALANCES AND TRANSACTIONS (continued)**

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

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
<i>Parent Company</i>		
Purchases	20,764,596	19,171,092
Other expenses	49,343	55,711
	<u>20,813,939</u>	<u>19,226,803</u>
 <i>Other related party</i>		
Other expenses	<u>109,052</u>	<u>94,666</u>

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

c) *The remuneration of Directors and other key members of management during the year included in the statement of comprehensive income are as follows:*

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Short-term employee benefits	<u>117,769</u>	<u>89,216</u>

**16 COMMITMENTS AND CONTINGENCIES**

At 31 March 2019, the Company had no long-term non-cancellable operating lease commitments. During the year an amount of USD 71,687 (31 March 2018: USD 70,844) was recognised in the statement of comprehensive income as rent expense (note 4).

The Company does not have any liabilities that are contingent in nature as at 31 March 2019 (31 March 2018: Nil).

**17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial liabilities comprise borrowings, due to related parties and accruals. The Company's financial assets are bank balances, cash in hand, trade receivables, other receivables and investment in securities.

The management has overall responsibility for the Company and oversight of the Company's risk management framework, and for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations:

The main risks arising from the Company's financial instruments are:

- Interest rate risk;
- Credit risk;
- Liquidity risk; and
- Currency risk.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Interest rate risk**

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

The Company is exposed to interest rate risk on its interest bearing liabilities (borrowings). The Company's interest-bearing financial liabilities expose them to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows.

The sensitivity analysis below has been determined based on the exposure to changes in interest rates for the Company's interest bearing borrowings at the reporting date. The analysis is prepared assuming that these amounts outstanding at the reporting date were outstanding throughout the year. 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 a reasonably possible change in interest rates.

There were no financial instruments the value of which can change due to market interest rates. If interest rates had been 50 basis points higher/lower and all other variables held constant, the Company's profit/loss for the year ended 31 March 2019 and 31 March 2018 would increase/decrease by nil and USD 85, respectively. There is no direct impact on the Company's equity other than the impact resulting from the effect on the loss for the year.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on the following financial assets:

	<i>2019</i> <i>USD</i>	<i>2018</i> <i>USD</i>
Trade receivables	2,873,414	2,689,010
Bank balances	1,633,364	256,860
Other receivables	44,864	24,475
	<u>4,551,642</u>	<u>2,970,345</u>

*Trade receivable*

The Company has a policy of dealing with customers with an appropriate credit history and good credit rating.

The Parent Company on behalf of the Company has also undertaken credit risk insurance coverage to mitigate its exposure to credit risk arising from default of customers. Outstanding trade accounts receivable are regularly monitored. The requirement for impairment is analysed at each reporting date on an individual basis for major customers. Additionally, a large number of minor trade accounts receivable are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The Company does not hold any collateral as security.

The Company evaluates the concentration of credit risk with respect to trade accounts receivable to be not high, as its customers are located in several jurisdictions and operate in largely independent markets.

At 31 March 2019, the Group's four largest customers accounted for 88% of outstanding accounts receivable (2018:76%). There are no other customers who represent more than 10% of the total balance of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Credit risk (continued)**

*Trade receivable (continued)*

The details of the allowance for expected credit losses of trade receivables computed based on weighted average probability of default as at 31 March 2019 are as follows:

	<i>Trade receivables AED</i>	<i>Loss allowance AED</i>	<i>Expected credit loss (ECL)</i>
Gross carrying amounts:			
Receivables with specific instances of default	117,613	117,613	100%
Other trade receivables	2,873,414	-	0%
At 31 March 2019	<u>2,991,027</u>	<u>117,613</u>	

*Bank balances*

Credit risk on bank balances are assessed to be low as these balances are callable on demand and held with reputable financial institutions in the UAE.

*Other receivables*

With respect to credit risk arising from other financial assets, including deposits and other receivables, the Company's exposure to credit arises from default of the counter party with maximum exposure equal to the carrying amount of these assets.

**Liquidity risk**

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

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company limits its liquidity risk by ensuring adequate bank facilities are available. The Company's terms of sales require amounts to be paid within 30 to 60 days from the date of sale. Trade payables are normally settled within 30 to 60 days from the date of purchase.

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

*At 31 March 2019:*

	<i>Less than 1 year USD</i>	<i>Total USD</i>
Due to related parties	1,987,552	1,987,552
Contract liability and accruals	160,985	160,985
	<u>2,148,537</u>	<u>2,148,537</u>

*At 31 March 2018:*

	<i>Less than 1 year USD</i>	<i>Total USD</i>
Due to related parties	2,976,402	2,976,402
Advances and accruals	133,815	133,815
Borrowings	17,232	17,232
	<u>3,127,449</u>	<u>3,127,449</u>

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NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2019

**17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Currency risk**

Currency risk is the risk that the fair value of a financial instrument or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Currency risk mainly arises from sales or purchases by the Company in foreign currencies other than the Company's functional currency.

Further, the Company does not have significant transactional currency exposure as significant proportion of its transactions are either in AED or US Dollar. As AED is currently pegged to the US Dollar, balances in US Dollar and other currencies currently pegged against the US Dollar are not considered to represent significant currency risk.

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 March 2019 and 31 March 2018. Capital comprises share capital and retained earnings, and is measured at equity of USD 179,442 (31 March 2018: deficiency of assets of USD 12,292).

**18 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

The Company's financial assets are investment in securities, bank balances, cash in hand, trade receivables and other receivables. The Company's principal financial liabilities comprise borrowings, due to related parties and accruals.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of financial instruments are not materially different from their carrying values largely due to the short-term maturities of these instruments.