ABU DHABI SHIP BUILDING

2020 ANNUAL REPORT

ADSB
ABU DHABI SHIP BUILDING

BEYOND SHIPBUILDING


ADSB

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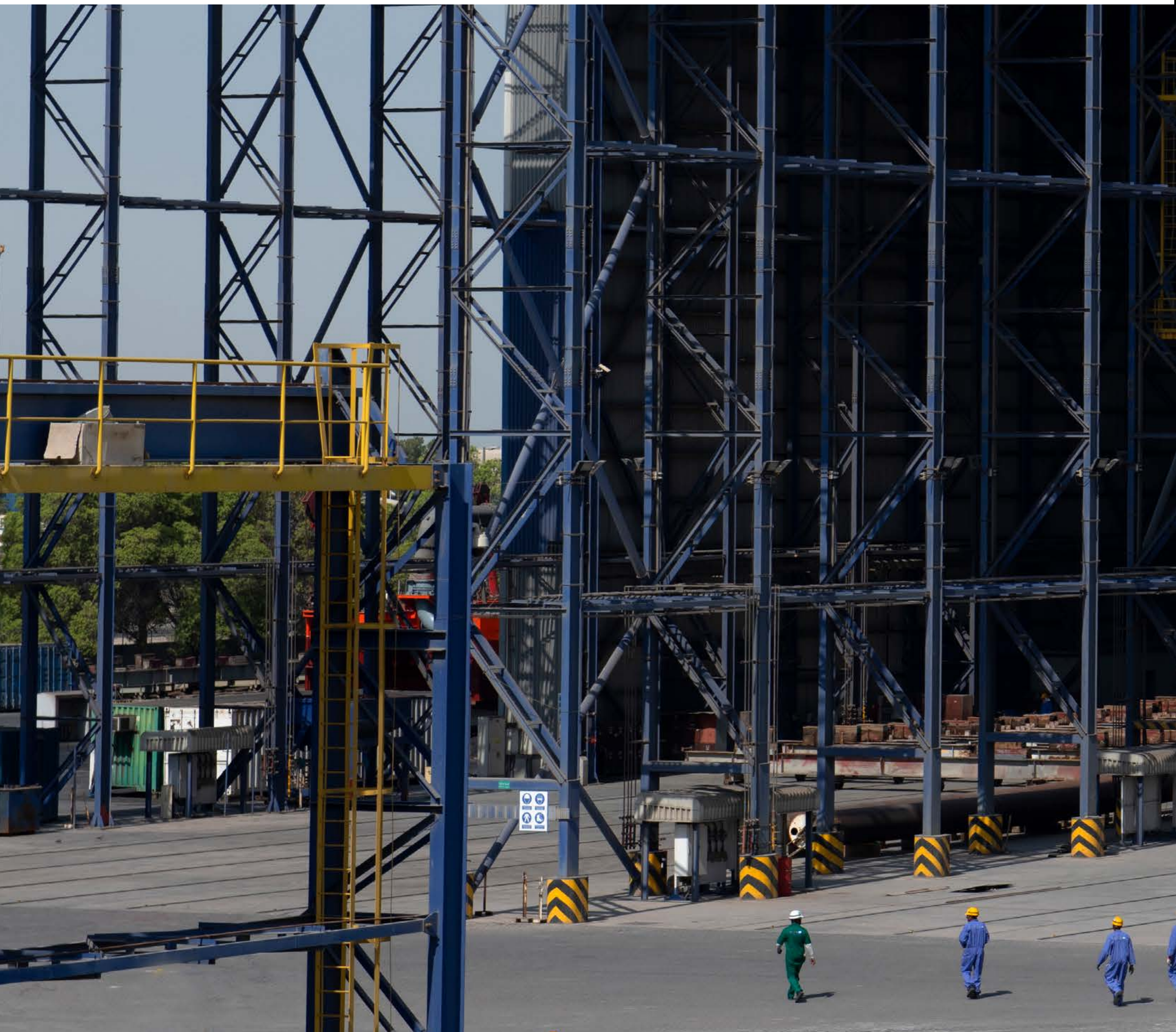


ADSB
ABU DHABI SHIP BUILDING

MESSAGE FROM THE CHAIRMAN

Dear Valued Shareholders,

Having assumed the role of Chairman of Abu Dhabi Ship Building PJSC recently, I thank Dr Fahad Al Yafei, the outgoing Chairman and Anas Albarghuthi, Deputy Chairman, for their leadership during an extraordinary year and for ushering in the first stages of recovery.

As we advance into Q2 2021, I am pleased to share that things are looking up once again. ADSB has renewed the crucial Military Support Services contract with GHQ until December 2022 and has, over the past year developed a portfolio of indigenous designs and prototypes that were demonstrated to an overwhelming response at IDEX and NAVDEX 2021. Significantly, ADSB received a Letter of Award for what we hope will be the largest contract yet in the Company's history. We attribute these achievements to the incredible teamwork of our employees.

On behalf of my fellow board members and colleagues at ADSB, I would like to convey our sincere appreciation to the UAE President His Highness Sheikh Khalifa bin Zayed Al Nahyan, and His Highness Sheikh Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, Deputy Supreme Commander of the UAE Armed Forces, and Chairman of the Abu Dhabi Executive Council, for their vision, leadership and continued strong support. ADSB is also grateful to our customers for their invaluable support during a challenging year.

While it is disappointing to report a net loss of AED21.7 million for the fiscal year, this is lower than the AED53 million net loss reported during Q3 2020. At that point the Company's accumulated losses surpassed 50% of share capital, putting it in the Red Zone with ADX. Encouragingly, at the close of the year, this is no longer the case. However, the board will present a proposal to shareholders at the General Meeting to address the accumulated losses that now stand at AED81.4 million.

During the financial year, management took the necessary remedial actions that helped reduce the cost base of the Company. The positive outcomes of these actions and of the new contracts won in 2020 are anticipated to significantly impact the Company's bottom line in the current year.

In their report for 2019, external auditors highlighted weaknesses in the Company's internal controls over the estimation process for project accrual. We took note of these concerns, and an improved process of project accruals estimation was implemented during the fiscal year. I am pleased to report that the 2020 audit report is unqualified.

2020 was the first full year in which ADSB operated as a part of the EDGE Group, and as a publicly listed Company with half of its shares traded on the Abu Dhabi Stock Exchange. The Company is benefiting significantly from the marketing and branding support it receives as an EDGE entity, and from greater access to high level decision making - both in the UAE and overseas.

Established through Emiri Decree No. 5 of 1995 (as amended), ADSB is mandated to create an industrial base to build various types of best-in-class vessels, marine components and equipment, perform all associated maintenance and repair work, and develop local capability to deliver on its scope.

I am pleased to report that the Company continues to competitively support its primary customers that include the UAE Navy and Critical Infrastructure and Coastal Protection Authority (CICPA). ADSB witnessed an increase in revenues from Commercial customers even amidst the disruption experienced by the logistics sector following the outbreak of the COVID-19 pandemic.

ADSB navigated a turbulent year with the support of a stable board and management team that are now facilitating the Company in implementing its meticulously planned recovery strategy. I hope to report further progress and new contract wins in the coming year as the world economy pushes forward.

In closing, a heartfelt thank you to all ADSB employees for their outstanding efforts during a year of unprecedented challenges to 'business as usual' due to the pandemic. Several staff teams continued to serve our customers at great personal risk to themselves, emphasising ADSB's resilience and commitment to maintaining exceptional service quality under all circumstances.

We are resolved to conquer new frontiers and enhance our core strengths as we build a more progressive and sustainable marine manufacturing business in the UAE.

KHALID OMAR AHMED NAJEEB ALBREIKI

Chairman of the Board

BOARD OF DIRECTORS

HALID OMAR AHMED NAJEEB ALBREIKI

*Chairman

ANAS AL BARGUTHI

Chairman of Executive Committee & Member of Operational & Technical Committee

ARIF MOHAMED AL ALI

Member of Executive Committee & Business Development Committee

CHRISTOPH GEORDT KUSE

Chairman of Audit Committee & Member of Executive Committee

DR. FAHAD SAIF HARHARA AL YAFEI

** Chairman

* Joined and appointed as Chairman in March 2021

** Resigned in March 2021

HAMAD ABDULLAH AL QAYDI
Member of Audit Committee & Nomination & Remuneration Committee

KHALIFA ABU SHAHAB
Member of Executive Committee & Audit Committee

MOHAMMED ABDULLAH AZAIZ ALSHERAIFI
Member of Nomination & Remuneration Committee

RASHED AL BLOOSHI
Chairman of Nomination & Remuneration Committee & Member of Business Development Committee

SAEED SALIM AL SUWAIDI
Chairman of Operational & Technical Committee

MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS

Shipbuilding is a cyclical industry and 2020 saw the lowest level of revenues for ADSB for some considerable time. Revenues were AED 255 million, compared with AED 320 million in 2019, impacted by budgetary constraints by its major customer the UAE Navy, and by the Covid-19 pandemic. Direct costs attributable to the pandemic were AED 1.9 million but the loss of revenues caused by movement restrictions and difficulties suffered by our military and commercial customers cannot be quantified. The net loss for the year was AED (21.7) million, compared with a loss of (3.8) million in 2019.

However, there is considerable cause for optimism for the future. In the fourth quarter, ADSB was very pleased to receive a Letter of Award for a program which would represent the largest order ever received by the Company and result in a very significant increase in revenues and activity when the program commences in 2021, however the contract has not yet been signed and the precise start date has not yet been agreed with the customer.

The year also saw the renewal of the Military Support Services (MSS) contract with the UAE Navy and the Rate Running Contract with CICPA. These are key contracts which provide a sustainable basis for the company and have made up the bulk of revenues in the absence of major ship building contracts.

Despite the movement restrictions suffered by commercial customers, and constraints on manpower due to Covid-19 cases and quarantine, we were very pleased to see Commercial business was ahead of 2019 with gross margins maintained.

Military repairs and maintenance revenues in 2020 including MSS were AED 150 million compared with AED 238 million in 2019. Commercial repairs and maintenance revenues in 2020 were AED 60 million compared with AED 50 million in 2019. Commercial repairs and maintenance included AED 14 million and AED 11 million respectively from the Floating Dock, which after extensive analysis it was concluded that the Floating Dock would never be likely to cover its rental costs of approximately AED 8 million a year and should be disposed of. These activities represented the bulk of the revenues of AED 255 million for the year.

Towards the end of third quarter, some restrictions in the region were relaxed and a long delayed delivery to a customer in the GCC region was able to be made and the remaining revenues and profits have also been recognized in the fourth quarter.

While the UAE Navy will always be the company's main customer, and indeed ADSB was set up to be a strategic national asset for the UAE, ADSB has also commenced a program to reduce the dependence on UAEN and diversify into other markets, including a greater emphasis on export sales. This will help to smooth the effects of the ship building cycle and improve profitability.

During the year ADSB reinforced its design capabilities and we were very pleased to have developed, for the first time in the Company's history, a range of boats entirely designed and built in the UAE at ADSB. The first prototypes, a 13m Fast Interceptor boat and a 16m fast Patrol boat, have now been completed and were shown at the 2021 NAVDEX exhibition in February. Other designs and prototypes are being developed which will be completed in 2021 and we have a strong sales pipeline for these new designs.

In response to the fall in revenues it was necessary to take action to restructure the cost base of the Company, which regrettably involved a reduction in headcount. This was especially painful against the background of the Covid-19 pandemic but as at 30 September 2020, the Company's accumulated losses were in excess of 50% of share capital, putting ADSB in the "Red" category with ADX. This requires the calling of a General Meeting to put a proposal to shareholders to address the losses, which will be endorsed by the regulator SCA.

However, with the full year loss of AED (21.7) million, being significantly lower than the AED (53.0) million loss till 30 September 2020, the company would be out of the "Red" category. The cost optimization exercise, and the decision to dispose of the uneconomic Floating Dock which is expected to be completed in the first half of 2021 with a profit on disposal, will result in a reduction of approximately AED 40 million from the cost base on an annualized basis, and will form part of the proposals to be put to shareholders.

Finally, the management and board would like to give their appreciation to all the ADSB staff who at considerable personal risk worked around the clock to establish and manage quarantine facilities at the height of the Covid-19 crisis early in the year. ADSB was one of the first companies in the UAE to implement a weekly (and sometimes more frequently) mass testing regime which combined with quarantine facilities and separation of work teams enabled the Company to stay operational even at the initial peak of the pandemic. ADSB continued to serve its customers and did not close down for even a single day. While it is disappointing to report a net loss for the year, with the changes to the cost base which have been implemented, the signing of new contracts, and the new product portfolio and strong sales pipeline, the Company is confident that the low point in the cycle has now been passed.

DAVID MASSEY

Chief Executive Officer

EXECUTIVE MANAGEMENT

DAVID MASSEY
Chief Executive Officer
(CEO)

David Massey is CEO of ADSB, an EDGE entity that specialises in the building, maintenance, repair, refitting, and conversion of naval and commercial vessels. In this role, he is responsible for managing the overall operations of the company, which deploys the latest technologies to extend ship lifetimes and to lower overall lifecycle costs.

Prior to joining ADSB, Massey was Consultant on financial and strategy issues at Velius, a strategic consultancy company that provides programme management, decision-making, and system integration support for complex multi-disciplinary projects in the military, national security, and critical infrastructure protection domains for EDGE.

Previously he served as Consultant for Eden Corporate Finance, which advised smaller companies involved in mergers and acquisitions (M&A) and initial public offering (IPO) transactions on short-term funding and corporate strategy, corporate finance, and turnaround solutions.

He was also a consultant to Falanx Group Limited, a cybersecurity company that specialises in protecting, defending, and informing businesses in the face of growing political and cyber risks.

In earlier roles, he was Managing Editor of the international financial news service AFX News, where he oversaw 120 journalists in 22 bureaux worldwide, and worked in financial markets as analyst, fund manager and corporate financier.

David Massey holds a bachelor's degree in law from Oxford University in the UK.

MARIAM AL MOOSAWI

Chief Financial Officer (CFO)

Mariam Al Moosawi is Chief Financial Officer at ADSB, an EDGE entity and regional leader in the build, repair, maintenance, refit and conversion of naval and commercial vessels. In this role, she is responsible for managing the finance and IT operations, and for liaising with the CEO and board of directors to implement strategic initiatives towards business transformation.

Mariam brings to her role more than 10 years of experience in project management, budgeting, ERP and process enhancements, and business transformations.

Prior to her current role, she was Acting Head of Budgeting and Projects, where she managed the financial planning and analysis team focusing on business models, budgeting, and forecasting. She was credited with transforming the cost allocation model from a traditional to a performance focused one to reflect accurate business profitability.

Earlier, she was Corporate Governance Manager at ADSB, and oversaw Oracle automation, quantifying risks and opportunities and transformed the payables and payroll processes through the application of LEAN principles to speed up process times.

In a previous role, as Head of Financial Planning and Analysis, she led the reorganisation and development of the function, with a focus on cost optimisation and accurate forecasting to support net profit growth aligned with the budget. She also led the annual budget preparation through generating the group five year business plan, overheads report, and HR plan.

Early in her career, she worked as Senior Project Accountant at Tourism Development and Investment Company. She handled over 15 prestigious projects worth more than AED 3 billion, including The Louvre Abu Dhabi, Zayed National, and Guggenheim museums, improving the capitalisation process for the completed projects through the implementation of LEAN principles, and saving consultancy costs of over AED1 million.

Mariam Al Moosawi holds an MBA in Finance and Strategy from Columbia Business School in New York, USA and London Business School in the UK. She also has to her credit a BA in Business Sciences with a focus on Accounting from Zayed University in the UAE.

ALI MOHAMMED AL SHEHHI

Chief Operating Officer (COO)

Ali Mohammed Ali Al Shehhi is Chief Operating Officer of ADSB, an EDGE entity that specialises in the building, maintenance, repair, refitting, and conversion of naval and commercial vessels. In this role, he is tasked with providing strategic direction and overseeing the administrative and operational functions of the company, as well as maintaining synergies with clients, business partners, and stakeholders.

Prior to his current role, Al Shehhi was the Production and Operations Director at ADSB. Earlier, Al Shehhi was Deputy Programme Manager at EDIC land systems, a renowned UAE-based manufacturer of weapons and other defence products, where he was responsible for managing the scope, cost, and schedule of projects, as well as preparing and updating project plans and status reports. Previously, he served in the UAE Navy in several positions such as technical workshops in various naval bases.

Ali Mohammed Ali Al Shehhi holds a bachelor's degree in Mechanical Engineering from the Military Technical College (MTC) in Egypt. After retiring from the Navy where Al Sehhi worked in technical, engineering and administrative fields, he completed various technical and personal development training courses, including the Lean Six Sigma Green Belt and several courses at DynCorp International, such as Performance Management.

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
ABU DHABI SHIP BUILDING PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Abu Dhabi Ship Building PJSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Emphasis of matter

1. We draw attention to the notes 6 and 7 to the consolidated financial statements, which state that as of 31 December 2020, the Group has gross outstanding balances of contract assets and trade receivables amounting to AED 213,086 thousand and AED 421,470 thousand, respectively (with an allowance for expected credit losses of AED 10,908 thousand and AED 59,227 thousand, respectively) of which AED 75,867 thousand and AED 253,311 thousand have been outstanding for more than 1 year. Most of the long outstanding balances pertain to contracts and work orders with one customer and its related entities. Management has assessed that a significant amount of cash is expected to be collected from this customer through an amendment of an existing contract which had been finalized in the last quarter of 2020 and an amendment of another existing contract which is expected to be finalized and executed during the year 2021.
2. We draw attention to note 2 to the consolidated financial statements which state that during the year 2020, the Group incurred net loss amounting to AED 21,692 thousand and as of 31 December 2020, the Group has accumulated losses of AED 81,422 thousand. Further, the Group is currently dependent upon bank borrowings to finance its operations. These factors might indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

Our opinion is not qualified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion on 30 March 2020 on the following matter:

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

Based on our audit procedures, we understand that during the year management has put in place new controls around the project cost estimation process where the cost estimates are also reviewed periodically by the relevant functions in the Company. The process also includes enhanced controls around project cost accrual processes and the segregation of duties for project cost approval and recording. We have obtained an understanding of the new process and performed walkthrough, controls testing and substantive procedures over the project accruals balance and obtained sufficient and appropriate audit evidence on the existence and completeness of the balance as at 31 December 2020.

Key audit matters

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

Key audit matter	How our audit addressed the area of focus
Recognition of revenue from ship building and repair services contracts A significant portion of the Group's revenues are derived from ship building and repair services contracts and a significant portion of the revenue on such contracts is recognised over time as performance obligations are fulfilled over time. As disclosed in note 16 to the consolidated financial statements, during the year 2020, the Group has earned AED 254,784 thousand (2019: AED 319,730 thousand) revenue from construction and service contracts. This area was important to our audit due to significant estimates involved in the determination of stage of completion and measurement of progress towards the satisfaction of performance obligations and estimating costs to complete on each contract.	We obtained an understanding of and walked through the Group's controls over the revenue and cost recognition process to assess the design of the key controls in place. Our substantive audit procedures included the following, amongst others: • review of the contracts and service orders to evaluate management's assessment of performance obligations in accordance with IFRS 15; • obtaining an understanding of the performance and status of the contracts through discussions with project teams (management's specialists) and the finance team; • obtaining cost estimation schedules approved by project teams and verifying the costs to complete by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date; • evaluated Group's positions through examination of customer and subcontractor correspondences, contract amendments, variation orders and milestone acceptances; and • review of correspondence from legal advisors and minutes of the key meetings to corroborate management's assessment of claims and penalties recorded.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

Key audit matter	How our audit addressed the area of focus
Recoverability of contract assets and trade receivables As at 31 December 2020, the Group has significant balances of contract assets and trade receivables and the recoverability thereof has been assessed as a key audit matter. As disclosed in notes 6 and 7, an amount of AED 10,908 thousand (2019: AED 31,350 thousand) and AED 59,227 thousand (2019: AED 63,742 thousand) has been recognised as a provision for Expected Credit Loss ("ECL") against contract assets and trade receivables respectively in accordance with IFRS 9. This area was important to our audit due to significant estimates involved in the recoverability assessment of long outstanding trade receivables and contract assets. Significant estimates made by management include, amongst others, probability of customers' default, loss given default, exposure at default, expected dates of collection and discount rates.	Our audit procedures included the following, amongst others: • obtaining an understanding of the Group's process for estimating ECL and assessing the appropriateness of the ECL methodology against the requirements of IFRS 9; • assessing the reasonableness of management's key assumptions and judgements made in determining the ECL including the segmenting of trade receivables and contract assets, selection of ECL model and macroeconomic factors; • testing key inputs into the model and comparing these to historical data; • assessing reasonableness of forward-looking factors used by the Group by corroborating with publicly available information; and • verifying billings post year end and ensuring that these were in line with contractual terms where applicable as they related to unbilled work in progress at the reporting date. Refer notes 6 and 7 to the consolidated financial statements which disclose the significant judgements made by the management in relation to recoverability of these balances.

Other information

Other information consists of the information included in the Group's 2020 Annual Report, the Corporate Governance report, the Message from the Chairman and the Management Discussion and Analysis other than the consolidated financial statements and our auditor's report thereon. We obtained the Message from the Chairman and the Management Discussion and Analysis prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2020 Annual Report and Corporate governance report after the date of our auditor's report. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Other Legal and Regulatory Requirements

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

i. we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;

iii. the Group has maintained proper books of account;

iv. the consolidated financial information included in the Message from the Chairman and the Management Discussion and Analysis is consistent with the books of account and records of the Group;

v. based on the information that has been made available to us, the Group has not purchased or invested in any shares or stocks during the financial year ended 31 December 2020;

vi. note 23 reflects the material related party transactions and the terms under which they were conducted;

vii. there were no social contribution made during the year; and

viii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2020, any of the applicable provisions of its Articles of Association or of the UAE Federal Law No. (2) of 2015 which would have a material impact on its activities or its consolidated financial position as at 31 December 2020.

GRANT THORNTON

Farouk Mohamed

Registration No: 86

Abu Dhabi, United Arab Emirates

Date: 25 March 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020 AED '000**	2019 AED '000
ASSETS			
Non-current assets			
Property, plant and equipment	3	159,673	192,370
Intangible assets	4	632	1,332
Right-of-use assets	21	13,380	38,068
Advances to suppliers	7	26,824	12,120
		200,509	243,890
Current assets			
Inventories	5	11,283	19,679
Contract assets	6	202,178	264,420
Trade and other receivables	7	377,831	444,088
Cash and bank balances	8	18,706	4,909
		609,998	733,096
Noncurrent asset held for sale	20	**14,511**	-
TOTAL ASSETS		**825,018**	976,986
EQUITY AND LIABILITIES			
Equity			
Share capital	9	211,992	211,992
Statutory reserve	10	88,718	88,718
Accumulated losses		(81,422)	(59,730)
Equity attributable to owners of the parent		219,288	240,980
Non-controlling interests		(138)	(138)
Total equity		**219,150**	240,842
Non-current liabilities			
Employees' end of service benefits	11	22,184	20,941
Advances from customers	12	25,032	25,032
Lease liabilities	21	11,565	29,492
		58,781	75,465
Current liabilities			
Trade and other payables	13	198,185	185,208
Advances from customers	12	77,113	83,049
Lease liabilities	21	1,685	18,148
Bank overdrafts	14	211,245	288,877
Term loans	15	58,859	85,397
		547,087	660,679
Total liabilities		**605,868**	736,144
TOTAL EQUITY AND LIABILITIES		**825,018**	976,986

Anas Al Barguthi
Vice Chairman of the Board

David Massey
Chief Executive Officer

Mariam Al Moosawi
Acting Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 AED '000	2019 AED '000
Contract revenue	16	254,784	319,730
Contract costs	17	(234,699)	(258,114)
GROSS PROFIT		20,085	61,616
General and administrative expenses	18	(51,213)	(48,630)
Depreciation and amortization	3,4,21	(10,561)	(15,017)
Impairment losses on financial assets	6,7	-	(3,638)
Finance costs		(6,578)	(10,182)
Other income, net	19	26,575	12,058
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(21,692)	(3,793)
Attributable to:			
Equity holders of the parent		(21,692)	(3,793)
Non-controlling interest		-	-
		(21,692)	(3,793)
BASIC AND DILUTED LOSS PER SHARE (AED)	22	(0.10)	(0.02)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to the equity holders of the Parent					
	Share capital AED'000	Statutory reserve AED'000	Accumulated losses AED'000	Equity attributable to owners of the parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019 as previously reported	211,992	88,718	(66,647)	234,063	(138)	233,925
Correction of prior period error	-	-	10,710	10,710	-	10,710
Balance at 1 January 2019 (restated)	211,992	88,718	(55,937)	244,773	(138)	244,635
Loss and total comprehensive loss for the year	-	-	(3,793)	(3,793)	-	(3,793)
Balance at 31 December 2019	**211,992**	**88,718**	**(59,730)**	**240,980**	**(138)**	**240,842**
Balance at 1 January 2020	211,992	88,718	(59,730)	240,980	(138)	240,842
Loss and total comprehensive loss for the year	-	-	(21,692)	(21,692)	-	(21,692)
Balance at 31 December 2020	**211,992**	**88,718**	**(81,422)**	**219,288**	**(138)**	**219,150**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 AED '000	2019 AED '000
OPERATING ACTIVITIES			
Loss for the year		(21,692)	(3,793)
Adjustments:			
Depreciation and amortization	3,4	22,107	26,918
Depreciation of right-of-use assets	21	7,321	9,088
Provision for employees' end of service benefits	11	3,330	3,401
Reversal of allowance for expected credit losses on contract assets	6	(5,361)	(8,067)
Reversal of allowance for expected credit losses on trade receivables and advances to suppliers		(20,171)	(1,536)
Reversal of provision for obsolete and slow moving inventories	5	(112)	(28)
Finance costs		8,365	12,489
		(6,213)	38,472
Working capital adjustments:			
Inventories		8,508	(3,908)
Contract assets		82,684	82,303
Trade and other receivables and advances to suppliers		56,643	(95,631)
Trade and other payables		(3,400)	(12,231)
Advance from customers		(5,936)	(23,033)
Cash generated from/(used in) operations		132,286	(14,028)
Employees' end of service benefits paid	11	(2,087)	(7,077)
Net cash flows generated from/(used in) operating activities		130,199	(21,105)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(3,221)	(2,062)
Net cash flows used in investing activities		(3,221)	(2,062)
FINANCING ACTIVITIES			
Proceeds from loans	15	86,107	85,397
Repayment of loans	15	(112,645)	-
Finance costs paid		(6,495)	(10,095)
Repayment of lease liabilities	21	(2,516)	(2,516)
Net cash flows (used in)/generated from financing activities		**(35,549)**	72,786
NET INCREASE IN CASH AND CASH EQUIVALENTS		91,429	49,619
Cash and cash equivalents at 1 January		**(283,968)**	(333,587)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	**(192,539)**	(283,968)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1 ACTIVITIES

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

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

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

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

Name of subsidiary	Interest (%) 31 December 2020	Interest (%) 31 December 2019	Country of Incorporation	Principal activity
Abu Dhabi Systems Integration LLC ("ADSI")	**100%**	100%	UAE	Import and commissioning of integrated electronic systems and computer programs
Gulf Logistics and Naval Support LLC ("GLNS")	**100%**	100%	UAE	Provision of naval support services
Safwa Marine L.L.C.	**100%**	100%	UAE	Trading of ships and boats
ADSB Investments Limited	**100%**	100%	UAE	Holding of investments
Frontiers Industrial Investment LLC	**99%**	99%	UAE	System integration and technology development and implementation
High Speed Craft Company LLC	**100%**	100%	UAE	Marine machine and equipment repairing and maintenance

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorized for issuance in accordance with a resolution of the Board of Directors on 25 March 2021 .

2 FUNDAMENTAL ACCOUNTING CONCEPT

During the year ended 31 December 2020, the Group incurred net loss amounting to AED 21,692 thousand (2019: AED 3,793 thousand) and as of 31 December 2020, the Group has accumulated losses of AED 81,422 thousand (2019: AED 59,730 thousand). Further, the Group is currently dependent upon bank borrowings to finance its operations. These factors might indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern, however, the consolidated financial statements have been prepared on a going concern based on the following:

a. The Group's cash flows and profitability are expected to be improved in the future through new projects recently awarded or in the process of being awarded through a letter of award which was received in the fourth quarter of 2020 and expected to be signed in 2021,

b. A significant amount of cash is expected to be collected from Group's major customer through an amendment of an existing contract which had been finalized in the last quarter of 2020 and an amendment of another existing contract which is expected to be finalized and executed during the year 2021,

c. The sale of the Group's floating dock which is currently classified as held for sale in the balance sheet is expected to be completed in the second quarter of 2021 after a deal was signed with a buyer on 27 January 2021. This decision will result into a considerable reduction of the Group's current cost base going forward, and

d. The Group underwent a restucturing in the fourth quarter of 2020 which should reduce its current cost base considerably going forward.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PREPARATION

Statement of compliance

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

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

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

Basis of consolidation

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PREPARATION continued

Basis of consolidation continued

- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

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

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

Significant accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new standards, interpretations and amendments effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to IFRS 3 regarding the definition of business.
- Amendment to IFRS 7, IFRS 9 and IAS 39 regarding the interest rate benchmark reforms.
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality.
- Amendments to IFRS 16 regarding Covid-19 related rent concession.
- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment).

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

The following new standards/ amendments to standards which were issued up the date of issuance of these consolidated financial statements and are not yet effective for the year ended 31 December 2020 have not been applied while preparing these consolidated financial statements. The Group does not expect that the adoption of these standards / amendments will have a material impact on its consolidated financial statements:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

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

continued

New standards and revised IFRSs not yet effective and has not been adopted early by the Company	Effective date
Amendments to IAS 1 to address classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	1 January 2022
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	1 January 2022
Amendments to IAS 37 amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	1 January 2022
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements	1 January 2022
Annual improvements to IFRS Standards 2018–2020	1 January 2022
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (2011)' relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these amendments will be adopted in the financial information in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by the management.

2.4 IMPACT OF COVID-19

On 11 March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the United Arab Emirates. Majority of Governments all over the world took steps to contain the spread of the virus. UAE in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Group, whose operations are largely concentrated in an economy which is primarily based on oil, the economic impacts of the above events, though the scale and duration of which remains uncertain, primarily include:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.4 IMPACT OF COVID-19 continued

- Significant interruption of international businesses and trade as well as travel restrictions and unavailability of personnel etc;
- A significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates, and a general decline in interest rates globally;
- Transfer/receipt of cash where majority of business are not working at optimum level; and
- (continued) decline in oil prices could have an impact, including reduced government spending, which could impact the Group's results.

The resultant situation necessitated the Group's management to revisit its significant judgments in applying the Group's accounting policies and the methods of computation and the key sources of estimation applied to the annual consolidated financial statements for the year ended 31 December 2020. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, management carried out an impact assessment on the overall Group's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these consolidated financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

While applying the accounting policies as stated in note 2.6, management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation of uncertainty

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

Useful lives of property, plant and equipment

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

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Key sources of estimation of uncertainty continued

value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Allowance for obsolete inventories

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

At the reporting date, gross inventories were AED 27,733 thousand (2019: AED 36,241 thousand), with an allowance for old and obsolete inventories of AED 16,450 thousand (2019: AED 16,562 thousand). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognized in the consolidated statement of comprehensive income.

Allowance for Expected Credit Losses (ECL)

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

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

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

At the reporting date, gross trade receivables, were AED 421,470 thousand (2019: AED 475,605 thousand) with an allowance for expected credit losses amounting to AED 59,227 thousand (2019: AED 63,742 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

At the reporting date, gross contract assets, were AED 213,086 thousand (2019: AED 295,770 thousand) with an allowance for expected credit losses amounting to AED 10,908 thousand (2019: AED 31,350 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Key sources of estimation of uncertainty continued

Allowance for Expected Credit Losses (ECL) continued

Management has assessed future expected recovery dates of trade receivables and contract assets. Most of the long outstanding balances pertain to contracts and work orders with one customer and its related entities. Management has assessed that a significant amount of cash is expected to be collected from this customer through an amendment of an existing contract which had been finalized in the last quarter of 2020 and an amendment of another existing contract which is expected to be finalized and executed during the year 2021.

Estimation of total costs of construction contracts

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

Judgements

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

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

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

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

2.6 SIGNIFICANT ACCOUNTING POLICIES

Revenue from contracts with customers

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

Step 1 Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognize revenue when (or as) the Group satisfies a performance obligation.

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

a. The Group's performance does not create an asset with an alternate use to the Group and the Group has as an enforceable right to payment for performance completed to date.

b. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

c. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

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

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

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

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

Construction contracts

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

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

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

The Group uses the input method to measure the progress towards complete satisfaction of these performance obligations under IFRS 15 Revenue from Contracts with Customers. The complete satisfaction of the performance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

Construction contracts continued

obligation is determined based on the proportion of contract costs incurred for work performed up to the end of the reporting period relative to the estimated total contract costs. The contract costs recognised at the end of the reporting period is equal to the actual costs incurred to date with the corresponding revenue and margin recognised in proportion to the work completed.

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

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

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

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

Repairs and services

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

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

Services

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

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

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

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

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

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

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

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

Borrowing costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

Financial instrument

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

Financial assets

Initial recognition and measurement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets continued

Subsequent measurement

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

a. Financial assets at amortised cost;

b. Financial assets at fair value through OCI with recycling of cumulative gains and losses;

c. Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition; and

d. Financial assets at fair value through profit or loss.

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

Cash and cash equivalents

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

Financial assets at amortised cost

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

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

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

Impairment of financial assets

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

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

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

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets continued

Impairment of financial assets continued

information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial liabilities continued

Derecognition of financial liabilities

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

Offsetting

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

Inventories

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

Foreign currencies

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

Provisions

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

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

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

Fair value measurement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued

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

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Right-of-use assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Leasing continued

Right-of-use assets continued

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

Lands 3-8 years

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.6 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' end of service benefits

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

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Non-current asset held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

3 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures AED'000	Production and other equipment AED'000	Assets under construction AED'000	Total AED'000
Cost:				
At 1 January 2020	321,754	209,534	392	531,680
Additions	-	-	3,221	3,221
Transfers	245	1,641	(1,886)	-
Reclassification	-	(65,994)	(99)	(66,093)
At 31 December 2020	**321,999**	**145,181**	**1,628**	**468,808**
Accumulated depreciation and impairment:				
At 1 January 2020	174,050	165,260	-	339,310
Charge for the year	13,495	7,912	-	21,407
Reclassification	-	(51,582)	-	(51,582)
At 31 December 2020	**187,545**	**121,590**	**-**	**309,135**
Net carrying amounts:				
At 31 December 2020	**134,454**	**23,591**	**1,628**	**159,673**
Cost:				
At 1 January 2019	320,354	204,322	5,092	529,768
Additions	-	-	2,062	2,062
Transfers	1,400	5,362	(6,762)	-
Retirement	-	(150)	-	(150)
At 31 December 2019	321,754	209,534	392	531,680
Accumulated depreciation and impairment:				
At 1 January 2019	157,404	154,404	1,629	313,437
Charge for the year	16,359	9,664	-	26,023
Related to retirement	-	(150)	-	(150)
Transfers	287	1,342	(1,629)	-
At 31 December 2019	174,050	165,260	-	339,310
Net carrying amounts:				
At 31 December 2019	147,704	44,274	392	192,370

Reclassification in 'production and other equipment' category pertains to the planned sale of the Company's floating dock, and accordingly classified as non-current asset held for sale (note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

3 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge has been allocated in the consolidated statement of comprehensive income as follows:

	2020 AED'000	2019 AED'000
Contract costs	11,748	12,103
General and administrative expenses	9,659	13,920
	21,407	26,023

4 INTANGIBLE ASSETS

	Computer software	
	2020 AED'000	2019 AED'000
Cost:		
At 1 January	16,250	16,250
At 31 December	16,250	16,250
Accumulated amortisation:		
At 1 January	14,918	14,023
Charge for the year	700	895
At 31 December	15,618	14,918
Net carrying amounts:		
At 31 December	632	1,332

5 INVENTORIES

	2020 AED'000	2019 AED'000
Goods for sale	3,128	3,128
Work in progress	2,232	10,254
Raw materials and consumables	22,373	22,859
	27,733	36,241
Less: provision for obsolete and slow moving items	(16,450)	(16,562)
	11,283	19,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

5 INVENTORIES continued

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

	2020 AED'000	2019 AED'000
At 1 January	16,562	16,656
Additions	-	23
Reversals	(112)	(51)
Write-off	-	(66)
	16,450	16,562

6 CONTRACT ASSETS

	2020 AED'000	2019 AED'000
Value of work executed	9,373,096	9,112,951
Progress billings received and receivable	(9,191,782)	(8,869,655)
	181,314	243,296

The contract work in progress is presented as follows:

	2020 AED'000	2019 AED'000
Contract assets, net	202,178	264,420
Billings in excess of value of work in progress (note 13)	(20,864)	(21,124)
	181,314	243,296

Contract work in progress as at 31 December 2020 is stated net of allowance for expected credit losses of AED 10,908 thousand (2019: AED 31,350 thousand). The movements on the allowance are as follows:

	2020 AED'000	2019 AED'000
At the beginning of the year	31,350	65,720
Reversals	(5,361)	(8,067)
Write-offs	-	(4,638)
Transfer of allowance to advances paid to suppliers	-	(2,982)
Transfer of allowance to trade receivables (note 7) *	(15,081)	(18,683)
At the end of the year	10,908	31,350

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

6 CONTRACT ASSETS continued

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

The management of the Group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the construction industry. Refer note 2.5 to the consolidated financial statements where significant estimate and judgement relating to ECLs and future recovery dates have been disclosed.

7 TRADE AND OTHER RECEIVABLES

	2020 AED'000	2019 AED'000
Trade receivables	421,470	475,605
Less: allowance for expected credit losses	(59,227)	(63,742)
	362,243	411,863
Advances paid to suppliers*	10,391	26,213
Prepayments and other receivables	5,197	6,012
	377,831	444,088

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

	2020 AED'000	2019 AED'000
Current	10,391	26,213
Non-current	26,824	12,120
Total**	37,215	38,333

**This amount is stated net of provision amounting to AED 2,106 thousand (2019: AED 2,681 thousand).

Allowance for expected credit losses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

7 TRADE AND OTHER RECEIVABLES continued

Allowance for expected credit losses continued

At 31 December 2020, the analysis of trade receivables is as follows:

		Past due			
	Total AED'000	0-30 days AED'000	31 -90 days AED '000	91 -180 days AED '000	>180 days AED'000
2020					
Trade receivables	421,470	59,555	60,530	9,617	291,768
Lifetime ECL	(59,227)	(5,458)	(3,887)	(1,959)	(47,923)
Net trade receivables	362,243	54,097	56,643	7,658	243,845
2019					
Trade receivables	475,605	29,760	155,599	33,413	256,833
Lifetime ECL	(63,742)	(2,923)	(9,587)	(961)	(50,271)
Net trade receivables	411,863	26,837	146,012	32,452	206,562

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

	2020 AED'000	2019 AED'000
At the beginning of the year	63,742	46,340
Charge for the year	-	3,638
Recoveries*	(19,596)	(4,873)
Write offs	-	(46)
Transfer of allowance from contract assets (note 6)	15,081	18,683
At the end of the year	59,227	63,742

* Recoveries mainly pertains to collections during the year.

Refer note 2.5 to the consolidated financial statements where significant estimate and judgement relating to ECLs and future recovery dates have been disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

8 CASH AND CASH EQUIVALENTS

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

	2020 AED'000	2019 AED'000
Cash on hand	-	-
Bank balances	18,706	4,909
	18,706	4,909
Less: bank overdrafts (note 14)	(211,245)	(288,877)
Cash and cash equivalents	(192,539)	(283,968)

9 SHARE CAPITAL

	2020 AED'000	2019 AED'000
Authorised, issued and fully paid		
211,992,000 ordinary shares of AED 1 each	211,992	211,992

10 STATUTORY RESERVE

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

11 EMPLOYEES' END OF SERVICE BENEFITS

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

	2020 AED '000	2019 AED '000
At 1 January	**20,941**	24,617
Charge for the year	**3,330**	3,401
Paid during the year	**(2,087)**	(7,077)
At 31 December	**22,184**	20,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

12 ADVANCES FROM CUSTOMERS

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

	2020 AED'000	2019 AED'000
Current	**77,113**	83,049
Non-current	**25,032**	25,032
Total	**102,145**	108,081

13 TRADE AND OTHER PAYABLES

	2020 AED'000	2019 AED'000
Trade payables	**62,827**	30,834
Project accruals	**64,902**	75,821
Other liabilities	**47,534**	53,663
Billings in excess of value of work in progress (note 6)	**20,864**	21,124
Other payables	**2,058**	3,766
	198,185	185,208

The average credit period on purchases of goods is 60 days (2019: 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14 BANK OVERDRAFTS

	2020 AED'000	2019 AED'000
Bank overdrafts	**211,245**	288,877

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

As at 31 December 2020, the Group has AED 139 million (2019: AED 17 million) as available undrawn overdraft facilities.

On 21 April 2019, the Group transformed overdrafts amounting of AED 85,397 thousand into a loan with a local bank which was settled on 21 October 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

15 TERM LOANS

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

Starting 12 January 2020, the Group also started utilizing its short-term loan facility with another local bank in relation to the payment of its suppliers with maturity of 6 months from the date of drawdown. This loan carries interest at prevailing market rate. The carrying amount of the loan as at 31 December 2020 was AED 32,859 thousand (2019: nil).

On 8 December 2020, the Group obtained an interest bearing loan from EDGE (parent company) for the amount of AED 26,000 thousand with a maturity date of 31 December 2021 which could be settled in the form of installments or a lump sum payment. The interest is set as per EIBOR issued by UAE Central Bank and will be adjusted on a quarterly basis accordingly. The carrying amount of the loan as at 31 December 2020 was AED 26,000 thousand (2019: nil , note 23).

16 CONTRACT REVENUE

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major revenue streams. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

	2020 AED'000	2019 AED'000
Revenue from construction contracts	**29,635**	15,257
Revenue from rendering of services	**225,149**	304,473
	254,784	319,730

16.1 Timing of revenue recognition

	2020 AED'000	2019 AED'000
Services transferred at the point in time	**23,987**	7,534
Services transferred over time	**230,797**	312,196
	254,784	319,730

16.2 Geographical markets

	2020 AED'000	2019 AED'000
Revenues generated from United Arab Emirates	**230,797**	319,730
Revenues generated from outside United Arab Emirates	**23,987**	-
	254,784	319,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

17 CONTRACT COSTS

	2020 AED'000	2019 AED'000
Material and subcontract costs	**80,678**	90,721
Staff costs	**118,702**	131,323
Other costs *	**35,319**	36,070
	234,699	258,114

* This includes finance costs of AED 1,787 thousand (2019: AED 2,307 thousand).

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 AED'000	2019 AED'000 (Restated)
Material	**1,994**	564
Staff costs	**31,597**	23,214
Other costs	**17,622**	24,852
	51,213	48,630

19 OTHER INCOME, NET

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

20 NON-CURRENT ASSET HELD FOR SALE

In August 2020, the Executive Committee endorsed the Company's Management proposal to sell its 180 meter floating dock with a lifting capacity of 10,000 tons, currently located at Mina Zayed facility in Abu Dhabi. This floating dock was originally purchased with an intention to increase the shipyard's revenue from Commercial and Naval ship repairs, by addressing the infrastructure limitations in Mussafah facility (lifting capacity of 2,000 tons, maximum vessel length of 80 meters and docking draft of about 4 meters). On 27 January 2021, the deal was signed with a buyer which is expected to be completed on or before 30 April 2021.

Floating dock classified as held for sale during the year was measured at the lower of its carrying amount (with previous impairment) and fair value less costs to sell at the time of the reclassification, with no further write-down recorded. The fair value of the floating dock was determined using a recent firmed offer price adjusted for the estimated costs of disposal considering industry average. This is considered level 3 measurement as per the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

21 LEASES

Right-of-use assets

	Land	
	2020 AED'000	2019 AED'000
Cost:		
At 1 January	**47,156**	-
Adjustment on transition to IFRS 16	-	47,156
Retirement	**(29,730)**	-
At 31 December	**17,426**	47,156
Accumulated depreciation		
At 1 January	**9,088**	-
Charge for the year	**7,321**	9,088
Related to retirement	**(12,363)**	-
At 31 December	**4,046**	9,088
Net carrying amounts:		
At 31 December	**13,380**	38,068

Lease liabilities

Lease liabilities are presented in the consolidated statement of financial position as follows:

	2020 AED'000	2019 AED'000
Current	**1,685**	18,148
Non-current	**11,565**	29,492
	13,250	47,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

21 LEASES continued

Lease liabilities continued

Movements in lease liability as at and for the year ended 31 December are shown below:

	2020 AED'000	2019 AED'000
At 1 January	**47,640**	-
Adjustment on transition to IFRS 16	**-**	47,762
Lease payments	**(2,516)**	(2,516)
Transferred to trade and other payables	**(17,002)**	-
Finance cost	**1,870**	2,394
Retirement	**(16,742)**	-
At 31 December	**13,250**	47,640

The retirement pertains to the lease of Mina Zayed facility, in conjunction with management's plan to sell its floating dock situated there. Remaining rent expense was charged to profit or loss in the related year.

The statement of profit or loss shows the following amounts relating to leases for the year ended 31 December:

	2020 AED'000	2019 AED'000
Depreciation expense	**(7,321)**	(9,088)
Finance cost	**(1,870)**	(2,394)
Expense related to short-term leases and leases of low-value assets	**(1,836)**	-
Discontinued lease	**2,018**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

22 BASIC AND DILUTED LOSS PER SHARE

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

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

	2020 AED'000	2019 AED'000
Loss for the year attributable to the equity holders of the parent (AED '000)	**(21,692)**	(3,793)
Weighted average number of ordinary issued throughout the period ('000)	**211,992**	211,992
Basic and diluted loss per share (AED)	**(0.10)**	(0.02)

As of 31 December 2020, the Group has not issued any instruments that have an impact on loss per share when exercised.

23 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2020 AED'000	2019 AED'000
Key management compensation:		
Salaries, bonuses and other benefits	**6,123**	5,823
Post-employment benefits	**100**	73
	6,223	5,896
Director's remuneration	**2,000**	-
Related party balances:		
Due from a related party (included in trade and other receivables)	**4,078**	2,300
Due to a related party (included in trade and other payables)	**1,261**	1,658
Term loan from a related party (note 14)	**26,000**	-

These balances resulted from existing secondment agreement of certain employees from both parties as well as revenues or costs and loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

24 CONTINGENCIES AND CAPITAL COMMITMENTS

The Group's bankers have issued, in the normal course of business, letters of guarantee, performance bond and letters of credit limited to AED 1,396 million (2019: AED 1,208 million) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the period end.

Capital commitments

The authorised capital expenditure contracted at the end of the reporting period but not provided for is AED 12.5 million (2019: AED 2.7 million)

Contingencies

Prior to 2020, the Company delivered the vessel within revised schedule, however, maintained the vessel for an additional period during which open actions and additional requirements were undertaken. As per the contract terms, the customer may levy liquidated damages for this additional period. Management believes the chances of such a levy are remote as of 31 December 2020. Accordingly, no provision has been recorded by the Group for any levy in current or prior years.

25 SEGMENT INFORMATION

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

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

- New Build and Engineering encompasses the design, engineering, research and development, construction, commissioning, test and trials, ILS, upgrades, conversions and consultancy services for military, commercial and leisure vessels in any construction material
- Small Boats, includes in-house design development, research and development, construction of molds, prototypes and boats with LOA up to 24 meters with capability of large scale production line for military, commercial and luxury boats, commissioning, services and repairs of composite and special material boats.
- Military repairs and maintenance, includes upgrades, maintenance, repairs, and overhaul (MRO) of military vessels, and integrated support services
- Commercial repairs and maintenance include upgrades, maintenance, repairs and overhaul (MRO) of commercial vessels.
- Combat systems integration which includes import and commissioning of integrated systems and computer programs

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

Certain reallocations were made with respect to segment information for the Group's operations for year ended 31 December 2019 and accordingly, the comparative numbers were adjusted to more appropriately reflect the results per segment based on activity-based costing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

25 SEGMENT INFORMATION continued

	New Build and Engineering AED'000	Small Boats AED'000	Military Repairs and Maintenance AED'000	Commercial Repairs and Maintenance AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Year end 31 December 2020								
Contract revenue	19,190	23,987	149,959	60,475	1,173	-	-	254,784
Contract costs	(19,617)	(20,540)	(117,174)	(69,925)	(7,443)	-	-	(234,699)
GROSS PROFIT (LOSS)	(427)	3,447	32,785	(9,450)	(6,270)	-	-	20,085
General and administrative expenses	(4,648)	(2,808)	(15,239)	(11,756)	(610)	(16,152)	-	(51,213)
Depreciation & amortization	(429)	(375)	(1,669)	(2,821)	(9)	(5,258)	-	(10,561)
Finance costs	-	-	-	-	-	(6,578)	-	(6,578)
Other income	6,149	-	18,713	7	1,001	705	-	26,575
Segment profit / (loss)	645	264	34,590	(24,020)	(5,888)	(27,283)	-	(21,692)
Year ended 31 December 2019								
Contract revenue	15,116	9,921	238,100	49,777	6,816	-	-	319,730
Contract costs	4,850	(10,792)	(178,245)	(62,947)	(10,980)	-	-	(258,114)
GROSS PROFIT (LOSS)	19,966	(871)	59,855	(13,170)	(4,164)	-	-	61,616
General and administrative expenses	(3,367)	(1,859)	(11,633)	(9,722)	(2,881)	(22,806)	-	(52,268)
Depreciation & amortization	(452)	(207)	(3,458)	(3,096)	-	(7,804)	-	(15,017)
Finance costs	-	-	-	-	-	(10,182)	-	(10,182)
Other income	-	-	2,797	-	-	9,261	-	12,058
Segment profit / (loss)	16,147	(2,937)	47,561	(25,988)	(7,045)	(31,531)	-	(3,793)
As at 31 December 2020								
Assets	236,135	33,432	267,525	122,176	93,276	101,379	(28,905)	825,018
Liabilities	156,122	7,158	51,750	11,217	33,312	366,328	(20,019)	605,868
Capital Expenditure	197	130	1,037	1,098	-	759	-	3,221
As at 31 December 2019								
Assets	244,445	13,664	435,711	110,528	88,977	165,293	(81,632)	976,986
Liabilities	145,782	3,615	56,485	46,651	44,034	512,323	(72,746)	736,144
Capital Expenditure	153	63	635	844	-	367	-	2,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

26 FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.6 to the consolidated financial statements.

Capital risk management

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

	2020 AED'000	2019 AED'000
Trade and other payables	**198,185**	185,208
Bank borrowings	**32,859**	85,397
Related party borrowings	**26,000**	-
Cash and cash equivalents	**192,539**	283,968
Net debt	**449,583**	554,573
Total equity attributable to owners of the parent	**219,288**	240,980
Total equity and net debt	**668,871**	795,553
Gearing ratio	**67%**	70%

Financial risk management

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

Foreign currency risk management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

26 FINANCIAL INSTRUMENTS continued

Foreign currency risk management continued

Foreign currency sensitivity analysis

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

	Liabilities		Assets	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000
Euro	**175,199**	174,230	**163,442**	143,068
US Dollar	**48,193**	40,211	**80,474**	47,486
Others	**564**	555	**488**	2,013
	223,956	214,996	**244,404**	192,567

At 31 December 2020, if the exchange rate of the currencies other than the USD had increased/decreased by 10% against the UAE Dirham, with all other variables held constant, the Group's loss for the year would have been higher/lower by AED 1.2 million (2019: higher/lower by AED 3 million) mainly as a result of foreign exchange gain or loss on translation of Euro.

Interest rate risk management

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

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

	Effect on loss AED '000
2020	
+50 increase in basis point	**1,351**
-50 decrease in basis point	**(1,351)**
2019	
+50 increase in basis point	1,871
-50 decrease in basis point	(1,871)

Credit risk management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

26 FINANCIAL INSTRUMENTS continued

Credit risk management continued

Concentration of credit risk

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

The Group executes contracts mainly for GHQ-UAE Armed Forces and as at 31 December 2020, contract assets, trade receivables and advances received from GHQ-UAE Armed Forces amounted to a net receivable position of AED 395 million (2019: AED 536 million). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

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

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

Liquidity risk

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

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

	Carrying amount AED	Within 1 year AED	2-5 years AED	After 5 years AED
2020				
Trade and other payables	**198,185**	**198,185**	**-**	**-**
Bank borrowings	**244,104**	**244,104**	**-**	**-**
Related party borrowings	**26,000**	**26,000**	**-**	**-**
Lease liabilities	**13,250**	**1,685**	**7,855**	**3,710**
	481,539	**469,974**	**7,855**	**3,710**
2019				
Trade and other payables	185,208	185,208	-	-
Bank borrowings	374,274	374,274	-	-
Lease liabilities	47,640	18,148	23,630	5,862
	607,122	577,630	23,630	5,862

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

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

28 COMPARATIVE FIGURES

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


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