# Frigoglass Jebel Ali FZE

FINANCIAL STATEMENTS

31 DECEMBER 2016

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF FRIGOGLASS JEBEL ALI FZE

## Report on the Financial Statements

*Qualified Opinion*
We have audited the financial statements of Frigoglass Jebel Ali FZE (the "Establishment"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Establishment as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

*Basis for Qualified Opinion*
The Establishment has accumulated losses of AED 291,833,696 as at 31 December 2016 (2015: AED 243,308,837) and incurred a loss of AED 48,524,859 for the year then ended (2015: AED 31,840,153). Despite these indicators of possible impairment, management has not performed an impairment assessment to estimate the recoverable amount of property, plant and equipment which are carried at AED 159,854,529 (2015: AED 177,105,793) in the statement of financial position as at 31 December 2016. As management has not performed an impairment assessment, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of property, plant and equipment as at 31 December 2016. Consequently, we were unable to determine whether any adjustments to these amounts need to be made as at 31 December 2016. Our audit report on the financial statements of the Establishment for the year ended 31 December 2015 was also qualified in this regard.

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

*Material Uncertainty in relation to Going Concern*
Without further qualifying our opinion, we draw attention to note 2 to the financial statements. For the year ended 31 December 2016, the Establishment has incurred a loss of AED 48,524,859 and, as at 31 December 2016, its accumulated losses amounted to AED 291,833,696. These conditions along with other factors as referred to in note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Establishment's ability to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF FRIGOGLASS JEBEL ALI FZE (continued)**

*Responsibilities of management and those charged with governance for the financial statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the Implementing Regulations 1/92 pursuant to Law No. 9 of 1992 concerning the formation of legal establishments in Jebel Ali Free Zone (as amended), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Establishment's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Establishment's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF FRIGOGLASS JEBEL ALI FZE (continued)**

*Auditor's responsibilities for the audit of the financial statements (continued)*

- 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 Establishment'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 Establishment to cease to continue as a going concern.

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

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

**Report on Other Legal and Regulatory Requirements**

We confirm that, in our opinion, proper books of account have been kept by the Establishment in accordance with the provisions of the Implementing Regulations 1/92 pursuant to Law no 9 of 1992 concerning the formation of legal establishments in the Jebel Ali Free Zone. We obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Implementing Regulations have occurred during the year which would have had a material effect on the business of the Establishment or on its financial position.

For Ernst & Young

Signed by
Anthony O'Sullivan
Partner
Registration No.: 687

1 June 2017

Dubai, United Arab Emirates

## STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

| | Notes | 2016 AED | 2015 AED |
|---|---|---|---|
| Revenue | 4 | **124,601,125** | 146,422,519 |
| Cost of sales | 5 | **(125,187,305)** | (154,521,973) |
| Gross loss | | **(586,180)** | (8,099,454) |
| General and administrative expenses | 6 | **(16,083,653)** | (14,947,567) |
| Selling and distribution expenses | 7 | **(4,450,710)** | (5,692,558) |
| Finance costs | 8 | **(29,186,801)** | (27,914,146) |
| Other income | 9 | **1,782,485** | 24,813,572 |
| **LOSS FOR THE YEAR** | | **(48,524,859)** | (31,840,153) |
| Other comprehensive income | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(48,524,859)** | (31,840,153) |

The attached notes 1 to 24 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

| | *Notes* | *2016 AED* | *2015 AED* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 159,854,529 | 177,105,793 |
| Intangible asset | 11 | 233,403 | 395,464 |
| | | 160,087,932 | 177,501,257 |
| **Current assets** | | | |
| Inventories | 12 | 64,414,847 | 45,286,275 |
| Accounts receivable and prepayments | 13 | 33,026,921 | 38,233,494 |
| Due from related parties | 21 | 6,935,180 | 20,716,592 |
| Cash and cash equivalents | 14 | 1,836,968 | 9,870,663 |
| | | 106,213,916 | 114,107,024 |
| **TOTAL ASSETS** | | 266,301,848 | 291,608,281 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 15 | 100,000,000 | 100,000,000 |
| Additional shareholder contribution | 15 | 293,840,000 | - |
| Accumulated losses | | (291,833,696) | (243,308,837) |
| **Total equity/ deficiency of assets** | | 102,006,304 | (143,308,837) |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | 16 | 8,014,831 | 8,531,867 |
| Loans from related parties | 21 | 111,703,364 | 348,475,399 |
| | | 119,718,195 | 357,007,266 |
| **Current liabilities** | | | |
| Loans from related parties | 21 | - | 33,057,000 |
| Bank borrowings | 17 | 13,880 | 224,103 |
| Accounts payable and accruals | 18 | 44,069,961 | 44,119,280 |
| Due to related parties | 21 | 493,508 | 509,469 |
| | | 44,577,349 | 77,909,852 |
| **Total liabilities** | | 164,295,544 | 434,917,118 |
| **TOTAL EQUITY AND LIABILITIES** | | 266,301,848 | 291,608,281 |

D P Bennett-Voci

Mr. Darren Paul Bennett-Voci
Director

Mr. Venkada Shanker Dhanikonda
Director

The attached notes 1 to 24 form part of these financial statements.

# FRIGOGLASS JEBEL ALI FZE

## STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

| | *Share capital AED* | *Additional capital contribution AED* | *Accumulated losses AED* | *Total AED* |
|---|---|---|---|---|
| As at 1 January 2015 | 100,000,000 | 33,057,000 | (211,468,684) | (78,411,684) |
| Total comprehensive loss for the year | - | - | (31,840,153) | (31,840,153) |
| Reclassification of additional paid in Capital to Loan from related Party | - | (33,057,000) | - | (33,057,000) |
| Balance at 31 December 2015 | 100,000,000 | - | (243,308,837) | (143,308,837) |
| Total comprehensive loss for the year | - | - | (48,524,859) | (48,524,859) |
| Reclassification of loan from related party to additional paid up capital (Note 15) | - | 293,840,000 | - | 293,840,000 |
| **Balance at 31 December 2016** | **100,000,000** | **293,840,000** | **(291,833,696)** | **102,006,304** |

The attached notes 1 to 24 form part of these financial statements.

## STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

| | Notes | 2016 AED | 2015 AED |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year | | (48,524,859) | (31,840,153) |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | 10 | 22,833,359 | 22,906,779 |
| Loss on derecognition of property, plant and equipment | 10 | - | 3,617,331 |
| Amortisation of intangible asset | 11 | 162,061 | 161,782 |
| Provision for employees' end of service benefits | 16 | 1,583,152 | 1,051,852 |
| Provision for obsolete inventories | 12 | 1,457,830 | 2,002,365 |
| Gain from sale of property, plant and equipment | 9 | - | (99,523) |
| Interest expense | 8 | 203,375 | 1,233,363 |
| | | (22,285,082) | (966,204) |
| Working capital changes: | | | |
| Accounts receivable and prepayments | | 5,206,573 | 9,648,392 |
| Due from related parties | | 13,781,412 | (17,987,259) |
| Inventories | | (20,586,402) | (6,093,481) |
| Accounts payable and accruals | | (49,319) | (9,665,940) |
| Due to related parties | | (15,961) | 108,176 |
| | | (23,948,779) | (24,956,316) |
| Employees' end of service benefits paid | 16 | (2,100,188) | (248,541) |
| Interest paid | 8 | (203,375) | (1,233,363) |
| Net cash flows used in operating activities | | (26,252,342) | (26,438,220) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 10 | (5,582,095) | (12,614,663) |
| Proceeds from sales of property plant and equipment | | - | 99,523 |
| Net cash flows used in investing activities | | (5,582,095) | (12,515,140) |
| **FINANCING ACTIVITIES** | | | |
| Net movement in bank borrowings | | (210,223) | (17,168,412) |
| Loans from related parties * | | 24,010,965 | 54,834,579 |
| Net cash flows from financing activities | | 23,800,742 | 37,666,167 |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | | (8,033,695) | (1,287,193) |
| Cash and cash equivalents at 1 January | 14 | 9,870,663 | 11,157,856 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 14 | 1,836,968 | 9,870,663 |

*It includes non-cash transfer of AED 293,840,000 from loan from related parties account to additional shareholder contribution account (refer to Note 15).

The attached notes 1 to 24 form part of these financial statements.

## 1 ACTIVITIES

Frigoglass Jebel Ali FZE (the "Establishment") is a Free Zone Establishment with limited liability pursuant to the Implementing Regulations 1/92 pursuant to Law No. 9 of the 1992. The Establishment was initially incorporated as Jebel Ali Container Glass Factory FZE by the Jebel Ali Free Zone Authority on 13 January 2004.

On 19 May 2011, the shareholder of Jebel Ali Container Glass Factory FZCO, Mr Abdul Khaliq Mohammed Saeed, sold 80% of his stake to Coolinvest Holdings Limited (the "Parent Company'), an Establishment registered in Cyprus which subsequently changed its name to Frigoinvest Holdings BV and its domicile to Netherlands.

On 18 October 2015, the minority shareholder, Mr. Abdul Khaliq Saeed sold his 20% share and Frigoinvest Holding BV transferred its 80% share to Frigoglass Global Limited, an Establishment incorporated and registered in Cyprus, who became the owner of 100% of shares of the Establishment. The Ultimate Parent Company is Frigoglass S.A.I.C. (the "Ultimate Parent Company"). During the year 2015, the entity changed its legal status from a Free Zone Company to Free Zone Establishment and accordingly its name was changed to Frigoglass Jebel Ali FZE (the "Establishment").

The main activity of the Establishment is the manufacturing and sale of container glass bottles for food and beverage packaging.

The registered address of the Establishment is P.O. Box 61176, Jebel Ali Free Zone. Dubai, United Arab Emirates.

The financial statements of the Establishment for the year ended 31 December 2016 were approved and authorised for issue by the Board of Directors on 01 JUN 2017.

## 2 FUNDAMENTAL ACCOUNTING CONCEPT AND GOING CONCERN

For the year ended 31 December 2016, the Establishment incurred a loss of AED 48,524,859 and, as at 31 December 2016, its accumulated loss amounted to AED 291,833,696. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Establishment's ability to continue as a going concern.

Notwithstanding these facts and the uncertainties described within the Financial Statements of the ultimate Parent Company, The Financial Statements of the Establishment have been Prepared on a going Concern basis as the Ultimate Parent Company has resolved to Provide and Extend the necessary Financial Support to the Establishment to enable it to continue its operations and meet its obligations as and when they fall due.

During 2016, the Ultimate Parent Company started a comprehensive review of the Frigoglass Group's business and financing arrangements to optimize the capital structure of the Group. Following the restructuring, the group will achieve significant deleveraging, additional liquidity to fund its business needs, significant reduction in annual interest cost and significant extension of maturity of almost all of the Group's indebtedness for around (5) years. The Restructuring is at its final stages, and expected to be closed by end of July 2017. Management believes that the restructuring will be completed successfully and the Ultimate Parent Company has ability to support the Establishment.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), the applicable provisions of the Implementing Regulations 1/92 pursuant to Law No. 9 of 1992 concerning the formation of legal establishments in Jebel Ali Free Zone and the Articles of Association of the Establishment.

The financial statements have been presented in United Arab Emirates Dirhams (AED) which is the functional currency of the Establishment.

The financial statements have been prepared under the historical cost convention.

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

**Changes in accounting policies and disclosures**
The accounting policies adopted are consistent with those used in the preparation of the previous financial year, except for the following new standards, amendments and interpretations to IFRS as listed below:

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities

The adoption of the above standards and interpretations did not have any material impact on the accounting policies and disclosures of the Establishment.

**Standards, amendments and Interpretations in issue but not effective**
The following new and revised IFRSs are not mandatorily effective for the year ended 31 January 2017. However, they are available for early application. The Establishment has not early adopted any standard, interpretation or amendment that have been issued but not yet effective.

- IFRS 9 Financial Instruments (1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (1 January 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not decided)
- IFRS 16 Leases (1 January 2019)
- IAS 7 Disclosure Initiative – Amendments to IAS 7 (1 January 2017)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (1 January 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (1 January 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (1 January 2018)
- Amendments to IAS 40- Transfers of Investment Property (1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration ( 1 January 2018)
- Annual Improvement Plan IFRS 12 Disclosures of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (1 January 2017)
- Annual Improvement Plan IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters (1 January 2018)
- Annual Improvement Plan IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment – by – investment choice (1 January 2018)

Management anticipates that all of the above Standards and Interpretations will be adopted by the Company to the extent applicable to them from their effective dates. The adoption of these Standards, amendments and interpretations other than IFRS 16 *Leases* and IFRS 15 *Revenue from Construction with Customers* are not expected to have any material impact on the financial statements of the Company in the period of their initial application. Management is currently assessing the impact of IFRS 16 *Leases* and IFRS 15 *Revenue from Construction with Customers*, which will be adopted to the extent applicable to the Establishment.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Establishment and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The Establishment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Establishment has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*
Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, normally on delivery to the customer.

**Property, plant and equipment**
Property, plant and equipment are 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 | 35 years |
| Plant, machinery and equipment | 10- 35 years |
| Moulds | 3 years |
| Motor vehicles | 5 years |
| Furniture, fixtures and office equipment | 5 -10 years |

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 and equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

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

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.

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

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

**Capital work-in-progress**
Property, plant and equipment in the course of construction for production, or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Establishment's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

**Impairment of non-financial assets**

The Establishment 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 Establishment 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 to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

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

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

***Financial assets***
*Initial recognition and measurement*
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. All financial assets are recognised 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 Establishment's financial assets include cash and bank balances, trade and other receivables and due from related parties.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Accounts receivable are stated at original invoice amount less a provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Establishment will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the account receivable is impaired.

*Cash and cash equivalents*
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances.

*Derecognition*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Establishment has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Establishment's continuing involvement in the asset.

*Impairment of financial assets*
The Establishment assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

***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 or payables, as appropriate.

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

The Establishment's financial liabilities include loans from related parties, bank borrowings, accounts payable and accruals and due to related parties.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

*Accounts payable and accruals*
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. These are initially recognised at fair value and subsequently measured at amortised cost.

*Derecognition*
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**Offsetting of financial instruments**
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

**Inventories**
Inventories are valued at the lower of cost and net realisable value. Raw material and spares are valued using the weighted average method. Finished goods are valued at standard cost, which in the opinion of management approximates actual cost. A standard cost includes cost of direct materials and a proportion of manufacturing overheads based on the normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and selling expenses.

**Employees' end of service benefits**
The Establishment provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. In respect of certain employees of the Establishment, no provision is made as they are covered by a pension scheme to which the parent Company contributes. The Parent Company's contribution is not less than the amount that would have been required had a provision been made for such employees under local regulations.

**Foreign currencies**
Transactions in foreign currencies are initially recorded by the Establishment at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Current versus non-current classification**
The Establishment presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised 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 Establishment classifies all other liabilities as non-current.

## 4 REVENUE

| | *2016* | *2015* |
|---|---|---|
| | *AED* | *AED* |
| Local sales | **49,985,991** | 50,526,710 |
| Export sales | **74,615,134** | 95,895,809 |
| | **124,601,125** | 146,422,519 |

## 5 COST OF SALES

| | *2016* | *2015* |
|---|---|---|
| | *AED* | *AED* |
| Raw materials consumed | **60,469,559** | 86,403,583 |
| Depreciation of property, plant and equipment | **22,634,704** | 22,700,780 |
| Derecognition of property, plant and equipment | - | 3,617,331 |
| Employees' salaries and benefits | 19,208,693 | 17,075,541 |
| Land and camp rental | **4,314,926** | 4,105,725 |
| Transportation cost | **5,062,386** | 10,091,772 |
| Other | **13,497,037** | 10,527,241 |
| | **125,187,305** | 154,521,973 |

## 6 GENERAL AND ADMINISTRATIVE EXPENSES

| | *2016 AED* | *2015 AED* |
|---|---|---|
| Employees' salaries and benefits | **7,743,773** | 9,556,511 |
| Depreciation of property, plant and equipment and Amortisation of intangible asset | **360,717** | 367,781 |
| Recharges from related parties (Note 21) | **5,018,388** | - |
| Other | **2,960,775** | 5,023,275 |
| | **16,083,653** | 14,947,567 |

## 7 SELLING AND DISTRIBUTION EXPENSES

| | *2016 AED* | *2015 AED* |
|---|---|---|
| Employees' salaries and benefits | **3,038,242** | 3,690,329 |
| Duties and clearing charges | **268,934** | 1,099,951 |
| Other | **1,143,534** | 902,278 |
| | **4,450,710** | 5,692,558 |

## 8 FINANCE COSTS

| | *2016 AED* | *2015 AED* |
|---|---|---|
| Bank interest, charges and commission | **203,375** | 1,233,363 |
| Interest expense on loans from related parties (Note 21) | **28,983,426** | 26,680,783 |
| | **29,186,801** | 27,914,146 |

## 9 OTHER INCOME

| | *2016 AED* | *2015 AED* |
|---|---|---|
| Recharges to related parties (Note 21) | **207,542** | 23,187,753 |
| Gain from sale/exchange of old machinery | - | 99,523 |
| Sale of scrap | **420,959** | 416,796 |
| Miscellaneous income | **1,153,984** | 1,109,500 |
| | **1,782,485** | 24,813,572 |

## 10 PROPERTY, PLANT AND EQUIPMENT

| | *Buildings AED* | *Plant, machinery and equipment AED* | *Moulds AED* | *Motor vehicles AED* | *Furniture, fixtures and office equipment AED* | *Capital work in- progress AED* | *Total AED* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2016 | 73,588,783 | 264,671,598 | 35,683,009 | 793,500 | 3,335,990 | 801,710 | 378,874,590 |
| Additions | - | 2,784,090 | 2,633,647 | - | 7,325 | 157,033 | 5,582,095 |
| Transfer during the year | - | 54,367 | - | - | - | (54,367) | - |
| At 31 December 2016 | **73,588,783** | **267,510,055** | **38,316,656** | **793,500** | **3,343,315** | **904,376** | **384,456,685** |
| Depreciation: | | | | | | | |
| At 1 January 2016 | 38,533,658 | 128,551,955 | 31,009,864 | 738,888 | 2,934,432 | - | 201,768,797 |
| Charge for the year | 1,983,198 | 17,561,636 | 3,089,870 | 35,256 | 163,399 | - | 22,833,359 |
| At 31 December 2016 | **40,516,856** | **146,113,951** | **34,099,734** | **774,144** | **3,097,831** | - | **224,602,156** |
| Net carrying amount: | | | | | | | |
| **At 31 December 2016** | **33,071,927** | **121,396,464** | **4,216,922** | **19,356** | **245,484** | **904,376** | **159,854,529** |

## 10 PROPERTY, PLANT AND EQUIPMENT (continued)

| | *Buildings AED* | *Plant, machinery and equipment AED* | *Moulds AED* | *Motor vehicles AED* | *Furniture, fixtures and office equipment AED* | *Capital work in- progress AED* | *Total AED* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2015 | 73,308,913 | 261,286,551 | 33,109,618 | 870,500 | 3,139,552 | 2,164,643 | 373,879,777 |
| Additions | 279,870 | 2,094,531 | 2,573,391 | - | 177,340 | 7,489,531 | 12,614,663 |
| Disposals | - | (7,542,850) | - | (77,000) | - | - | (7,619,850) |
| Transfer during the year | - | 8,833,366 | - | - | 19,098 | (8,852,464) | - |
| At 31 December 2015 | 73,588,783 | 264,671,598 | 35,683,009 | 793,500 | 3,335,990 | 801,710 | 378,874,590 |
| Depreciation: | | | | | | | |
| At 1 January 2015 | 36,565,566 | 114,822,841 | 27,931,809 | 780,667 | 2,763,654 | - | 182,864,537 |
| Charge for the year | 1,968,092 | 17,654,633 | 3,078,055 | 35,221 | 170,778 | - | 22,906,779 |
| Relating to disposals | - | (3,925,519) | - | (77,000) | - | - | (4,002,519) |
| At 31 December 2015 | 38,533,658 | 128,551,955 | 31,009,864 | 738,888 | 2,934,432 | - | 201,768,797 |
| Net carrying amount: | | | | | | | |
| At 31 December 2015 | 35,055,125 | 136,119,643 | 4,673,145 | 54,612 | 401,558 | 801,710 | 177,105,793 |

a) The building is constructed on land situated in the Jebel Ali Free Zone, which has been leased from the Government of Dubai for a period of 15 years from 15 March 2009, with an option to renew at the end of the lease period. Management expects this lease will be renewed and accordingly the building is depreciated over its useful life expected to be 35 years.

b) Vehicles with a net book value of AED 19 thousand (2015: AED 55 thousand) are hypothecated against a hire purchase loan from a bank.

Depreciation charge for the year has been allocated to cost of sales and general and administrative expenses in the amount of AED 22,634,704 and AED 198,656, respectively (2015: AED 22,700,780 and AED 205,999).

## 11 INTANGIBLE ASSET

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| At 1 January | **395,464** | 557,246 |
| Amortisation during the year | **(162,061)** | (161,782) |
| At end of the year | **233,403** | 395,464 |

Intangible asset represents costs incurred by the Establishment for development of the accounting software. These costs are amortised over a period of 5 years.

## 12 INVENTORIES

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Finished goods | **53,463,400** | 32,999,738 |
| Less: Allowance for obsolete inventory | **(2,505,291)** | (1,047,461) |
| | **50,958,109** | 31,952,277 |
| Raw materials | **4,873,162** | 4,988,342 |
| Spares | **5,458,788** | 4,530,349 |
| Packing materials | **1,756,148** | 2,089,224 |
| Labels and labelling materials | **1,368,640** | 1,726,083 |
| | **64,414,847** | 45,286,275 |

As at 31 December 2016, there was no direct write off from raw materials (2015: 1,155,280). During the year 2016, AED 133,584 (2015: 1,113,934) was recognised as an expense for inventories carried at higher of net realisable value. This is recognised in cost of sales.

The movement of allowance for obsolete inventory is as follows;

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| At 1 January | **1,047,461** | 193,841 |
| Provided during the year | **1,457,830** | 2,002,365 |
| Utilised during the year* | **-** | (1,148,745) |
| At 31 December | **2,505,291** | 1,047,461 |

*This represents the amount of obsolete inventory re-used as cullet and added to inventories during the year.

## 13 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Trade receivables | 22,698,596 | 28,880,245 |
| Prepayments | 2,811,069 | 2,223,592 |
| Advances paid to suppliers | 1,199,334 | 1,168,284 |
| Refundable deposits | 4,250,383 | 4,299,688 |
| Margin deposits | 1,534,026 | 1,156,313 |
| Staff receivables | 533,513 | 505,372 |
| | 33,026,921 | 38,233,494 |

The credit period for customers ranges from 60 to 90 days. No interest is charged on past due trade receivables. The allowance for doubtful debts is recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Of the trade receivables balance at the end of the year, AED 16,822,239 is due from the Establishment's five largest customers (2015: AED 15,402,820 from five largest customers). There are no other customers who represent more than 10% of the total balance of trade receivables at the yearend (2015 : Nil).

As at 31 December 2016, trade accounts receivable at an initial value of AED Nil (2015: AED Nil) was impaired.

In determining the recoverability of a trade receivable, the Establishment considers changes in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no allowance required for doubtful debts as at the reporting date.

As at 31 December 2016, the ageing of unimpaired trade accounts receivable is as follows:

| | | | ***Past due*** | | | | |
|---|---|---|---|---|---|---|---|
| | *Total* *AED* | *Not past due* *AED* | *<30 days* *AED* | *30-60 days* *AED* | *61-90 days* *AED* | *91-120 days* *AED* | *>120 days* *AED* |
| **2016** | **22,698,596** | **19,603,935** | **1,459,009** | **809,625** | **4,402** | **821,625** | **-** |
| 2015 | 28,880,245 | 23,467,266 | 5,246,188 | 121,636 | - | - | 45,155 |

## 14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consist of the following amounts:

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Cash on hand | 1,203 | 5,691 |
| Current accounts | 1,835,765 | 9,864,972 |
| | 1,836,968 | 9,870,663 |

## 15 SHARE CAPITAL

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| *Authorised, issued and fully paid share capital* | | |
| Frigoglass Global Limited<br>1,000 shares of AED 100,000 each | **100,000,000** | 100,000,000 |
| Additional shareholder contribution | **293,840,000** | - |

During the year, the Shareholder passed a resolution to convert AED 293,840,000 from loan from related parties to share premium over par value which is recorded as additional shareholder contribution as of 31 December 2016. The Shareholder and the related party confirmed that the Establishment's loan liability has been reduced for the amount of AED 293,840,000 which should be treated as additional share premium. The balance is interest free and does not represent obligation to pay, hence management classified the balance as part of equity.

## 16 EMPLOYEES' END OF SERVICE BENEFITS

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

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Provision as at 1 January | **8,531,867** | 7,728,556 |
| Provided during the year | **1,583,152** | 1,051,852 |
| End of service benefits paid | **(2,100,188)** | (248,541) |
| Provision as at 31 December | **8,014,831** | 8,531,867 |

## 17 BANK BORROWINGS

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Due to bank under facility agreement | **13,880** | 224,103 |
| | **13,880** | 224,103 |

The bank facilities were used for financing working capital is repayable in 30 – 120 days. These loan and bank facilities are secured based on the corporate guarantee issued by the Ultimate Parent Company.

The interest is charged on facility agreement and overdrafts at rates varying between LIBOR/ EIBOR + 3.5 % to 4% per annum (2015: 3.5% to 4.0% per annum).

## 15 SHARE CAPITAL

| | 2016 AED | 2015 AED |
|---|---|---|
| *Authorised, issued and fully paid share capital* | | |
| Frigoglass Global Limited<br>1,000 shares of AED 100,000 each | **100,000,000** | 100,000,000 |
| Additional shareholder contribution | **293,840,000** | - |

During the year, the Shareholder passed a resolution to convert AED 293,840,000 from loan from related parties to share premium over par value which is recorded as additional shareholder contribution as of 31 December 2016. The Shareholder and the related party confirmed that the Establishment's loan liability has been reduced for the amount of AED 293,840,000 which should be treated as additional share premium. The balance is interest free and does not represent obligation to pay, hence management classified the balance as part of equity.

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## 17 BANK BORROWINGS

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| | **13,880** | 224,103 |

The bank facilities were used for financing working capital is repayable in 30 – 120 days. These loan and bank facilities are secured based on the corporate guarantee issued by the Ultimate Parent Company.

The interest is charged on facility agreement and overdrafts at rates varying between LIBOR/ EIBOR + 3.5 % to 4% per annum (2015: 3.5% to 4.0% per annum).

## 18 ACCOUNTS PAYABLE AND ACCRUALS

| | 2016 AED | 2015 AED |
|---|---|---|
| Trade payables | 36,057,512 | 37,777,780 |
| Advances received from customers | 458,898 | 38,279 |
| Amounts payable to employees | 3,569,508 | 2,984,056 |
| Other payables and accruals | 3,984,043 | 3,319,165 |
| | 44,069,961 | 44,119,280 |

## 19 COMMITMENTS AND CONTINGENT LIABILITIES

| | 2016 AED | 2015 AED |
|---|---|---|
| Letters of credit | 436,838 | 403,031 |
| | 436,838 | 403,031 |

Capital commitments outstanding as at 31 December 2016 amounted to AED Nil (2015: AED Nil).

## 20 LEASE COMMITMENTS

Non-cancellable operating lease rentals are payable as follows:

| | 2016 AED | 2015 AED |
|---|---|---|
| Within one year | 2,378,952 | 2,388,952 |
| Two to five years | 9,515,808 | 6,810,544 |
| More than five years | 8,407,803 | 5,448,435 |
| | 20,302,563 | 14,647,931 |

The Establishment has leased the land on which the buildings have been constructed. The lease for plots number B045RO1 & B044R02 is valid for 10 years up to 14/07/2025 with annual rent of AED 2,378,952, the lease is open to the option for renewal at the end of the lease term.

## 21 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties represent the shareholder, directors and key management personnel of the Establishment, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Establishment's management.

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

| (a) Due from related parties | *2016* *AED* | *2015* *AED* |
|---|---|---|
| *Parent Company* | | |
| Frigoglass Global Limited | **2,571,900** | 9,574,287 |
| *Entities under common ownership of the Ultimate Parent Company* | | |
| Beta Glass PLC | **216,689** | 4,137,278 |
| Frigoglass Industries Nigeria Ltd. | **-** | 2,802,752 |
| Frigoglass S.A.I.C. | **207,541** | - |
| Frigorex Cyprus Limited (ii) | **3,939,050** | 4,202,275 |
| | **6,935,180** | 20,716,592 |

Outstanding balances at the year-end arose in the normal course of business. For the year ended 31 December 2016, the Establishment has not recorded any impairment with respect to due from related parties (2015: AED Nil). This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

| (b) Due to related parties | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Long term loans | | |
| *Entities under common ownership of the Ultimate Parent Company* | | |
| Frigoinvest Holdings BV (i) | **99,201,247** | 336,875,948 |
| Frigoglass Industries Nigeria Limited (ii) | **12,502,117** | 11,599,451 |
| | **111,703,364** | 348,475,399 |
| Short term loans | | |
| *Entities under common ownership of the Ultimate Parent Company* | | |
| Frigoinvest Holdings BV (i) | **-** | 33,057,000 |
| | **111,703,364** | 381,532,399 |
| Other payables | | |
| *Entities under common ownership of the Ultimate Parent Company* | | |
| Frigoglass Industries Nigeria Limited | **238,947** | 238,947 |
| Kato Achia – Head Office | **181,370** | 197,331 |
| Beta Glass Delta Plant | **73,191** | 73,191 |
| | **493,508** | 509,469 |

(i) Long term loans payable to Frigoinvest Holdings BV carries an interest of 7.5% (2015: 7.5%) per annum.

(ii) Long term loans payable to Frigoglass Industries Nigeria Limited carries an interest of quarterly LIBOR plus 7.5% (2015: 7.5%) per annum.

The Ultimate Parent Company confirmed that these loans are not due and will not be demanded to be paid within the next twelve months. These loans are not secured.

## 21 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

2) During the year, the Establishment entered into the following income statement transactions with related parties:

(a) Interest expenses

| | *2016 AED* | *2015 AED* |
|---|---|---|
| *Entities under common ownership of the Ultimate Parent Company* | | |
| Frigoinvest Holdings BV | **28,080,760** | 14,103,679 |
| Frigorex Cyprus Limited | - | 7,681,919 |
| Frigoglass Industries Nigeria Limited | **902,666** | 804,272 |
| Frigoglass Finance B.V. | - | 4,090,913 |
| | **28,983,426** | 26,680,783 |

(b) Recharges (from)/to related parties

| | *2016 AED* | *2015 AED* |
|---|---|---|
| *Parent Company* | | |
| Frigoglass Global Limited | - | 9,397,180 |
| *Entities under common ownership* | | |
| Frigoinvest Holdings BV | - | 64,894 |
| Frigoglass Industries Nigeria Limited | **(2,138,865)** | 2,279,199 |
| Beta glass Delta plant | **(1,151,272)** | 1,268,272 |
| Beta glass Guinea plant | **(1,728,251)** | 1,964,893 |
| Frigoglass Mena FZE | - | 280,000 |
| Frigoglass Cyprus Limited | - | 7,933,315 |
| Frigoglass SAIC | **207,542** | - |
| | **(4,810,846)** | 23,187,753 |

3) Compensation of key management personnel

The remuneration of key management personnel during the year were as follows:

| | *2016 AED* | *2015 AED* |
|---|---|---|
| Salaries and other benefits | **6,426,526** | 8,195,471 |
| End of service benefits | **284,306** | 364,244 |
| | **6,710,832** | 8,559,715 |

## 22 RISK MANAGEMENT

**Interest rate risk**
Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Establishment is exposed to interest rate risk on the funds borrowed at floating interest rates, mainly from the related parties and bank borrowings. The risk is managed by the Ultimate Parent Company.

*Interest rate sensitivity analysis*
The sensitivity analysis below has been determined based on the exposure to interest rates for non- derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Establishment's result for the year ended 31 December 2016 would decrease/increase by AED 558,586 (2015: decrease/increase by AED 1,908,753). This is mainly attributable to the Establishment's exposure to interest rates on its variable rate borrowings.

**Credit risk**
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The gross maximum exposure to credit risk is as follows:

| | *2016* *AED* | *2015* *AED* |
|---|---|---|
| Bank balances | **1,835,765** | 9,864,972 |
| Trade receivables | **22,698,596** | 28,880,245 |
| Deposits | **5,784,409** | 5,456,001 |
| Due from related parties | **6,935,180** | 20,716,592 |
| | **37,253,951** | 64,917,810 |

The Establishment seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Any risk associated with due from related parties is managed by the Ultimate Parent Company. Deposits are held with the reputable parties, including mainly government entities.

**Liquidity risk**
Liquidity risk is the risk that the Establishment will not be able to meet its financial obligations as they fall due. The Establishment's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Establishment's reputation.

The table below summarises the maturities of the Establishment's undiscounted financial liabilities at 31 December 2016, based on contractual payment dates and applicable interest rates.

***2016***

| | *Less than 3 months AED* | *3 to 12 months AED* | *1 to 5 years AED* | *Total AED* |
|---|---|---|---|---|
| Trade payables | - | 36,057,512 | - | 36,057,512 |
| Other payables and accruals | - | 3,984,043 | - | 3,984,043 |
| Amounts payable to employees | 3,569,508 | - | - | 3,569,508 |
| Loans from related parties* | - | - | 111,703,364 | 111,703,364 |
| Amounts due to related parties | - | 493,508 | - | 493,508 |
| Bank borrowings | 8,382 | 5,588 | - | 13,970 |
| | 3,577,890 | 40,540,651 | 111,703,364 | 155,821,905 |

## 22 RISK MANAGEMENT (continued)

**Liquidity risk (continued)**

2015

| | *Less than 3 months AED* | *3 to 12 months AED* | *1 to 5 years AED* | *Total AED* |
|---|---|---|---|---|
| Trade payables | - | 37,777,780 | - | 37,777,780 |
| Other payables and accruals | - | 3,319,165 | - | 3,319,165 |
| Amounts payable to employees | 2,984,056 | - | - | 2,984,056 |
| Loans from related parties* | - | 33,057,000 | 348,475,399 | 381,532,399 |
| Amounts due to related parties | - | 509,469 | - | 509,469 |
| Bank borrowings | 225,560 | - | - | 225,560 |
| | 3,209,616 | 74,663,414 | 348,475,399 | 426,348,429 |

*There is no agreed payment schedule for the loans from related parties and therefore the above balances do not include future interest charge.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Establishment's measurement currency. The Establishment undertakes certain transactions in foreign currencies and is exposed to foreign exchange risk. There is no exposure for currency risk related to USD, as USD is pegged to AED. The Establishment is only exposed to other major currency which is Euro.

The table below indicates the Establishment's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the AED currency rate against the Euro on the statement of comprehensive income with all other variables held constant:

| | *Increase in Euro rate to the AED* | *Effect on loss for the year* |
|---|---|---|
| **2016** | **10%** | **(371,742)** |
| 2015 | 10% | (373,627) |

Decrease in Euro rate to AED would result in the same amount of effect on the loss for the year.

**Capital management**

The primary objective of the Establishment's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Establishment manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Establishment may adjust the dividend payment to the shareholders, return of capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended 31 December 2016. Capital comprises of share capital (including additional shareholder contribution) and accumulated losses, and is measured at AED 102,006,304 as at 31 December 2016 (deficiency of assets 2015: AED 143,308,837).

## 23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, due from related parties and trade and other receivables. Financial liabilities consist of accounts payable and accruals, bank borrowings, loans from related parties and due to related parties.

Management believes the fair values of financial instruments are not expected to be materially different from their carrying values.

## 24 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Establishment's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Establishment's accounting policies, management has made certain judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

### A) Judgments

*Operating lease commitments-Establishment as lessee*
The Establishment has entered into lease agreements for certain properties. The Establishment has determined, based on an evaluation of the terms and conditions of the lease agreements, that the Establishment will not be able to obtain the ownership by the end of the lease term and so accounts for the lease contracts as operating leases.

### B) Estimates and Assumptions

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

***Impairment of property, plant and equipment and intangible asset***
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Establishment is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

***Impairment of accounts receivable***
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

At the reporting date, gross trade receivables were AED 22,698,596 (2015: AED 28,880,245) and provision for doubtful debts is AED Nil (2015: AED Nil). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

## 24 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### B) Estimates and Assumptions (continued)

***Impairment of inventories***
Inventories are held at the lower of cost and net realisable value. When inventories become old, obsolete or sold below cost, 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, are assessed collectively and a provision applied based on anticipated selling prices.

At the statement of financial position date, gross inventories were AED 66,920,138 (2015: AED 46,333,736) and the provisions for old and obsolete inventories amounted to AED 2,505,291 (2015: AED 1,047,461). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.