ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and consolidated financial statements for the year ended 31 December 2020

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Reports and consolidated financial statements
for the year ended 31 December 2020

Board of Directors' Report to the Shareholders
for the year ended 31 December 2020

On behalf of Arkan Building Materials Company's (Arkan) PJSC Board of Directors ("Arkan or the "Company"), I am pleased to present the Board of Directors' report for the year ended 31 December 2020, together with the audited consolidated financial statements for the year ended 31 December 2020.

In 2020, the construction industry in the UAE was heavily impacted by the Covid-19 pandemic and for Arkan, this came on top of an already challenging market due to increased competition, particularly for cement-based products, as well as a reduction in the number of construction projects in the Emirate of Abu Dhabi. Overall profitability declined, and the Company's liquidity position was impacted by working capital constraints, including slow customer cash collection and high inventory levels.

As a result of these challenges, the Company undertook significant measures to return the company to long-term profitability. In late 2020, Arkan mandated the specialist advisory firm, Alvarez and Marsal, to implement a cost rationalization programme, right sizing its operations to the expected market environment and to reflect the introduction of new production technologies and process improvements. This is expected to lead to AED 28 million of cost saving on an annualised basis, starting in the 2021 fiscal year. Throughout the process, Arkan continued to ensure that customer service, product quality and safety remained at the very highest standards.

Arkan also mandated Rothschild & Co to conduct a financial restructuring of the Company's indebtedness. Consequently, the Company signed an agreement with its term loan lenders obtaining a moratorium on principal loan repayments and certain covenants until mid-December 2022, which included the requirement not to pay dividends in the mentioned period. In light of these challenging circumstances, the Board has decided not to pay dividends for the foreseeable future. The priority for the Company going forward will be to reduce its significant leverage position and it may need to explore further capital structure options in the future.

Overall group revenue in 2020 was AED 828.68 million, compared to AED 902.44 million for the year 2019. The pandemic particularly impacted the Cement and Dry Mortar segments, which faced falling volumes and a tougher pricing environment. Arkan was at times unable to achieve its full sales potential, despite orders in hand, due to factors such as road closures, restricted delivery timings due to disinfection and closure of Industrial Zones. Revenues from Arkan's GRP Pipes segment doubled compared to the same period of 2019, due to significant market share gains; further showing the value of a broader diversified business.

Overall, the Company recorded a net loss of AED 66.54 million for the 2020 fiscal year, which included an impairment of AED 28.82 million, taken against a non-core associate investment. This compared to a net profit of AED 46.01 million in 2019, which benefitted from one off gains of AED 28.61 million, from the sale of scrap assets at the Emirates Cement Factory and proceeds from an insurance claim in the Cement Division.

<u>Review of Operations</u>

Cement Operations:
Revenue from the Cement Division was AED 447.12 million, compared to AED 543.47 million in 2019. Overall, the Division recorded a loss of AED 7.59 million as compared to a profit of AED 72.91 million in 2019. During 2019, there was non-recurring other income from an insurance claim and the sale of scrap assets from the Emirates Cement Factory, amounting to AED 28.61 million.

Board of Directors' Report to the Shareholders
for the year ended 31 December 2020 (continued)

Review of Operations (continued)

Concrete Blocks and Dry Mortar:
Revenue from Blocks and Dry Mortar was AED 201.91 million, compared to AED 222.37 million in 2019. The Division reported a loss of AED 6.83 million in 2020, compared to a profit of AED 7.55 million in the previous year. In addition to the COVID-19 impact on revenue, the Division recognised a provision of AED 17.92 million for receivables under accounting standard IFRS 9.

GRP Pipes:
Revenue from GRP Pipes increased significantly to AED 84.60 million, compared to AED 46.99 million in 2019. Profit jumped to AED 20.02 million, compared to AED 2.38 million the previous year, as the Business successfully captured market share.

PVC Pipes:
PVC Pipes revenue was AED 78.22 million, compared to AED 74.57 million in 2019. Profit declined to AED 2.29 million, compared to AED 4.16 million in 2019, due to lower selling prices. The Business had to recognise a provision of AED 3.50 million for receivables under accounting standard IFRS 9.

Bags:
Bags reported revenue of AED 16.83 million, compared to AED 15.04 million in 2019. Overall, the Division reported an improved loss position of AED 1.39 million, compared to a loss of AED 1.96 million in 2019.

Liquidity
The Company's cash and cash equivalents were AED 73.96 million as of 31 December 2020 (31 December 2019: AED 81.29 million).

Total Assets & Shareholders' Equity
The total assets of the Company equaled AED 3.26 billion at the end of 31 December 2020 (31 December 2019: AED 3.48 billion). The value of shareholders' equity was at AED 1.724 billion as of 31 December 2020 compared to AED 1.79 billion as of 31 December 2019.

Investments

The share of loss from associates was AED 0.20 million, compared to a profit of AED 3.70 million in 2019. The Company received a cash dividend of AED 6.2 million during the period, down from the AED 7.2 million received in 2019. The Company took an impairment of AED 28.82 million, due to the liquidation of Vision Hotel apartments.

On behalf of the Board of Directors

Jamal Salem Al Dhaheri
Chairman
11 March 2021

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arkan Building Materials Company (ARKAN) 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 profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year, and notes to the 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 financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for Opinion

We have 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 Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. We have communicated the key audit matters to the Audit Committee but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. On the following pages, we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

The key audit 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.

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><th colspan="2">Carrying value of goodwill</th></tr>
<tr><td>
As of 31 December 2020, the carrying value of goodwill amounted to AED 128 million, or 4% of total assets, as disclosed in note 6.
In accordance with IAS 36 Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment.
An impairment is recognised when the recoverable amount is less than the net carrying amount in accordance with IAS 36, as described in note 3 to the consolidated financial statements. The determination of the recoverable amount is mainly based on discounted future cash flows.
We considered the impairment of goodwill to be a key audit matter, given the method for determining the recoverable amount, the potential impact of the Covid-19 pandemic and the significance of the account in the Group's consolidated financial statements. In addition, the recoverable amounts are based on the use of important assumptions, estimates and assessments made by management, in particular future cash flow projections, the determination of discount and long-term growth rates.
</td><td>
We have evaluated the process implemented by the Group to determine the recoverable amount of goodwill grouped in cash-generating units (CGU). Our procedures consisted of:

assessing the design and testing the implementation of the Company's controls relating to review of impairment of goodwill; and
assessing the principles and method used for determining the recoverable amounts of the CGU to which goodwill is allocated and assessing that the method used is in accordance with requirements of IAS 36;
reconciling the net carrying amount of goodwill allocated to the CGU traced to the Group's accounting records;
engaging our valuation specialist to assess the discount rate applied by benchmarking against independent data;
challenging each of the key assumptions with management, including budget estimates underlying the cash flows used in the valuation models are based. For this purpose, we have also compared the estimates of cash flow projections of previous periods with actual corresponding results, to assess the pertinence and reliability of the process for making forecasts and considered if these have adequately taken the impact of the Covid-19 pandemic into account;
reviewing management's sensitivity analysis in relation to the key inputs used in the goodwill impairment test model, as well as performing our own sensitivity analysis of the factors and assumptions used; and
verifying the arithmetical accuracy of the valuations used by the Company.

We have also assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.
</td></tr>
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Going concern assessment	
As stated in note 3, the Group incurred a loss AED 66.5 million during the year ended 31 December 2020 and was in a net current liability position of AED 52.3 million at 31 December 2020. The Group had cash and cash equivalents of 74.0 million at 31 December 2020. In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows for a period of 12 months from the date of approval of these financial statements. In doing so, they considered the financing available to the Group and associated debt covenants, including the covenant waiver that the Group has obtained in relation to its financing facility, and cost saving actions the Group may have taken in responding to the Covid-19 pandemic. The Directors have also determined appropriate sensitivities to these forecasts. The Group meets its day-to-day working capital requirements through a mixture of long and short term facilities, which are disclosed in note 17. Subsequent to year end, the Group entered into an ammendment agreement with its Term Loan lenders for a repayment holiday up to 17 December 2022. The amendment agreement was executed on 9 March 2021. Taking into account the above, as disclosed in note 3, the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions. We have identified a key audit matter related to going concern due to the uncertainties around the impact of Covid-19 on market conditions, and the consequential impact on the Group's ability to meet its future debt repayment obligations.	We have evaluated the process implemented by the Group to assess going concern. Our procedures included, but were not limited to, the following: • assessing the process and method used for determining future cash flows; • assessing the design and testing the implementation of the relevant controls relating to the going concern assessment; • challenging each of the key assumptions with management, including budget estimates underlying the cash flows used and considered if these have adequately taken the impact of the Covid-19 pandemic into account; • comparing forecast cash flows with recent historical financial information to consider the accuracy of forecasting; • performing sensitivity analysis of the factors and assumptions used; • reviewing the amendment agreement for the restructuring of Term Loan 1, to determine whether any future cash flow forecasts accurately reflect contractual agreements in place at the date of the going concern assessment; and • understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast. We have also assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

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Other Information

The Board of Directors are responsible for the other information. The other information comprises the Board of Directors' Report to the Shareholders, which we obtained prior to the date of this auditor's report, and the Chairman's Message, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 that we obtained prior to the date of this 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.

When we will read the Chairman's Message, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and the applicable provisions of the articles of association of the Company and the UAE Federal Law No. (2) of 2015, and for such internal control as management determine 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 have 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 objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY
(ARKAN) PJSC (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020 that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Company has maintained proper books of account;
- The financial information included in the Board of Directors' Report to the Shareholders is consistent with the books of account and records of the Group;
- As disclosed in note 1 to the consolidated financial statements, the Group has not purchased or invested in shares during the financial year ended 31 December 2020;
- Note 11 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- 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 the UAE Federal Law No. (2) of 2015 or, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020.

Further, as required by the Resolution of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Company has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars as applicable, which would materially affect its activities or the financial statements as at 31 December 2020:

- Ministerial resolution No. 228 for the year 2006; and
- Relevant provisions of the applicable laws, resolutions and circulars organising the Company's operations.

Deloitte & Touche (M.E.)

Obada Alkowatly
Registration No. 1056
11 March 2021
Abu Dhabi
United Arab Emirates

Consolidated statement of financial position as at 31 December 2020

	Notes	2020 AED'000	2019 AED'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,860,098	1,919,298
Goodwill	6	128,430	128,430
Right-of-use assets	12	233,097	249,679
Investment in associates	7	153,649	188,867
Total non-current assets		2,375,274	2,486,274
Current assets			
Inventories	8	396,818	416,986
Trade and other receivables	9	412,724	495,814
Amounts due from related parties	11	755	1,016
Cash and cash equivalents	10	73,962	81,286
Total current assets		884,259	995,102
Total assets		3,259,533	3,481,376
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	1,750,000	1,750,000
Statutory reserve	14	85,448	85,448
Capital reserve	15	3,783	3,783
Other reserves	15	(9,089)	(6,596)
Accumulated losses		(106,010)	(39,468)
Total equity		1,724,132	1,793,167
Non-current liabilities			
Lease liabilities	19	146,182	149,992
Provision for employees' end of service benefit	16	49,028	44,544
Borrowings	17	403,678	4,522
Total non-current liabilities		598,888	199,058
Current liabilities			
Borrowings	17	529,327	938,844
Trade and other payables	18	385,147	508,679
Amounts due to a related party	11	20	561
Loan from a related party	11	18,361	36,730
Lease liabilities	19	3,658	4,337
Total current liabilities		936,513	1,489,151
Total liabilities		1,535,401	1,688,209
Total equity and liabilities		3,259,533	3,481,376

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Company as of 31 December 2020, and for the periods presented in the report.

Jamal Salem Al Dhaheri	**Abdelaziz Asad**	**Faizal Amod**
Chairman	Chief Executive Officer (Acting)	Chief Financial Officer

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

Consolidated statement of profit or loss for the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000 (restated)
Revenue	20	828,682	902,436
Direct costs	21	(680,419)	(699,401)
Gross profit		148,263	203,035
Selling and distribution expenses	22	(25,530)	(25,826)
General and administrative expenses	23	(90,374)	(88,974)
Other income	25	3,364	28,852
Share of (loss) / profit of associates	7	(197)	3,702
Impairment losses on non-financial assets	26	(29,012)	(318)
Impairment loss on financial assets	9	(29,229)	(17,071)
Finance income	24	29	56
Finance cost	24	(43,856)	(57,447)
(Loss)/profit for the year		(66,542)	46,009
Basic and diluted earnings per share	30	(0.038)	0.026

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

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
(Loss)/profit for the year		**(66,542)**	46,009
Other comprehensive income			
Items that will not be reclassified subsequent to profit or loss:			
Re-measurement of provision for employees' end of service benefit	**16**	**(2,493)**	(2,567)
Total comprehensive (loss)/income for the year		**(69,035)**	43,442

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

Consolidated statement of changes in equity
for the year ended 31 December 2020

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Other reserve AED'000	Accumulated losses AED'000	Total equity AED'000
As at 1 January 2019	1,750,000	80,848	3,783	(4,029)	(37,127)	1,793,475
Profit for the year	-	-	-	-	46,009	46,009
Transfer to statutory reserve	-	4,600	-	-	(4,600)	-
Dividend paid	-	-	-	-	(43,750)	(43,750)
Other comprehensive income	-	-	-	(2,567)	-	(2,567)
As at 31 December 2019	1,750,000	85,448	3,783	(6,596)	(39,468)	1,793,167
Loss for the year	-	-	-	-	(66,542)	(66,542)
Other comprehensive income	-	-	-	(2,493)	-	(2,493)
As at 31 December 2020	**1,750,000**	**85,448**	**3,783**	**(9,089)**	**(106,010)**	**1,724,132**

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

Consolidated statement of cash flows
for the year ended 31 December 2020

	2020 **AED'000**	2019 AED'000
Cash flows from operating activities		
(Loss)/profit for the year	**(66,542)**	46,009
Adjustments for:		
Depreciation of property, plant and equipment	**72,479**	72,665
Amortisation of right-of-use assets	**16,506**	16,944
Gain on disposal of property, plant and equipment	**-**	(48)
Impairment loss on investment in an associate	**28,821**	-
Impairment loss on financial assets	**29,229**	17,071
Employees' end of service benefit charge	**6,385**	6,643
Share of (profit)/loss of associates	**197**	(3,702)
Finance income	**(29)**	(56)
Finance cost	**43,856**	57,447
Reversal of provision of inventory obsolescence	**(170)**	(1,156)
Impairment loss on inventories	**191**	318
Operating cash flows before movements in working capital	**130,923**	212,135
Decrease/(increase) in inventories	**20,147**	(28,809)
Decrease/(increase) in trade and other receivables	**53,861**	(19,635)
Decrease/(increase) in amounts due from related parties	**261**	(197)
Decrease in trade and other payables	**(123,540)**	(85,046)
Decrease in amounts due to a related party	**(541)**	(244)
Cash generated from operations	**81,111**	78,204
Employees' end of service benefit paid	**(4,394)**	(2,633)
Net cash from operating activities	**76,717**	75,571
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	**(13,279)**	(16,820)
Proceeds on disposal of property, plant and equipment	**-**	148
Interest received	**29**	56
Dividends received from associates	**6,200**	7,200
Net cash used in investing activities	**(7,050)**	(9,416)
Cash flows from financing activities		
Repayment of borrowings	**(404,844)**	(174,908)
Proceeds from borrowings	**394,483**	270,000
Repayment of loan from a related party	**(18,369)**	(18,344)
Dividend paid	**-**	(43,750)
Interest paid	**(33,981)**	(47,007)
Principal repayment of lease liabilities	**(4,405)**	(14,065)
Interest paid on lease liabilities	**(9,875)**	(10,440)
Net cash used in financing activities	**(76,991)**	(38,514)
Net (decrease)/increase in cash and cash equivalents	**(7,324)**	27,641
Cash and cash equivalents at beginning of year	**81,286**	53,645
Cash and cash equivalents at end of year (note 10)	**73,962**	81,286

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

Notes to the consolidated financial statements for the year ended 31 December 2020

1 General information

Arkan Building Materials Company (ARKAN) PJSC ("Arkan" or the "Company") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") as a Public Joint Stock Company pursuant to Ministerial Resolution No. 228 for the year 2006. General Holding Corporation PJSC (SENAAT) (the "Parent Company") owns 51% of the Company's shares. The Ultimate Parent Company of Arkan is Abu Dhabi Developmental Holding Company PJSC (ADQ) which is wholly owned by the Government of Abu Dhabi.

The principal activities of the Company include operating, trading and investing in industrial projects and commercial companies involved in the building materials sector.

These consolidated financial statements include the performance and financial position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Group		Principal activity
		2020	2019	
Emirates Blocks Factory	UAE	100%	100%	Production and sale of cement blocks.
Emirates Cement Factory[1]	UAE	100%	100%	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	100%	100%	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	100%	100%	Production and sale of pipes, manufacturing pipes, plastic and paper bags.

[1] Operations of Emirates Cement Factory were discontinued in December 2016 and currently Emirates Cement Factory does not have any operations.

The Group did not purchase or invest in shares during the financial year ended 31 December 2020.

2 Adoption of new and revised Standards

2.1 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements. The application of these revised IFRSs did not have any material impact on the amounts reported for the current period and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	**Effective for annual periods beginning on or after**
Definition of Material - Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	1 January 2020
Definition of a Business – Amendments to IFRS 3 *Business Combinations*	1 January 2020
Amendments to *References to the Conceptual Framework in IFRS Standards*	1 January 2020
Interest Rate Benchmark Reform – amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*	1 January 2020
Amendment to IFRS 16 *Leases* – COVID-19-Related Rent Concessions	1 June 2020

2 Adoption of new and revised Standards (continued)

2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 17 *Insurance Contracts*	1 January 2022
Amendments to IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date not yet decided
Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to IFRS 3 *Business Combinations: Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment related to proceeds before intended use	1 January 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets related to Onerous Contracts—Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41	The amendments to IFRS 1, IFRS 9 and IAS 41 are effective from 1 January 2022 and the effective date for amendments to IFRS 16 Leases are not yet decided.

Management do not expect the adoption of the standards listed above to have a material impact on the consolidated financial statements of the Group in future periods.

3 Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and applicable provisions of UAE Federal Law No. (2) of 2015.

Going concern

The Group incurred a loss for the year of AED 66.5 million and as at 31 December 2020, the Group had net current liabilities of AED 52.3 million which included AED 529.3 million of external borrowings (note 17) and AED 18.4 million of loan from a related party (note 11).

Subsequent to the year end, the Group entered into an amendment agreement with its Term Loan 1 lenders for a repayment holiday up to 17 December 2022. Consequently, AED 133.2 million of the AED 529.3 million and AED 18.4 million borrowing balances presented as current liabilities as at 31 December 2020 will not result in cash outflows until 17 December 2022.

In addition, based on the Group's existing cash position, the funds available from undrawn facilities which amounted to AED 105.5 million at the reporting date and the free cash flow expected to be generated from operations will be sufficient for the Group to meet its obligations as they fall due for a period of at least 12 months from the date of these financial statements.

Accordingly, and taking into consideration the impact of Covid-19 to the Group's future cash flows, these consolidated financial statements have been prepared on a going concern basis.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for provision for employees' end of service benefits which are measured on an actuarial basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of a financial asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 input are quoted price (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted by the Group are set out in the subsequent pages:

3 Summary of significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and the entities controlled by the Group (its subsidiary). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Business combination

Business combinations falling within the scope of IFRS 3 are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed in consolidated statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed an asset or liability will be recognised in accordance with IFRS 9 either in consolidated statement of profit or loss or as a charge to consolidated statement of other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of profit or loss as a gain on bargain purchase.

3 Summary of significant accounting policies (continued)

Business combination (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognised as of that date.

The measurement period ends as soon as the Group receives the necessary information about the facts and circumstances that existed as of the acquisition date or learns that the information is not obtainable. However, the measurement period cannot exceed one year from the acquisition date.

Revenue recognition

For contracts determined to be within the scope of revenue recognition, the Group is required to apply a five-step model to determine when to recognise revenue, and at what amount. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

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

Step 1: Identify the 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 the performance obligations in the contract
A performance obligation is a unit of account and 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.

3 Summary of significant accounting policies (continued)

Revenue recognition (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 will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- 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 completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

The Group primarily generates revenue from simply structured sales of building materials, such as cement, blocks, cement bags and pipes, for which the control passes to the customer at a specific point in time. Revenue is recorded net of value added tax (VAT).

Based on IFRS 15, management concluded that, it would be more appropriate to reflect transportation services as principal rather than agent, impacting revenue, direct costs and other income. Accordingly, for revenue contracts where the control of the goods transfers to customer on receipt by the customer (e.g. FOB destination), the Group considers to be the principal in the transportation service.

Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss in the period in which they are incurred.

3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated so as to write off the cost of fixed assets over their estimated useful lives using the straight-line method on the following basis:

	Years
Buildings	4 - 40
Plant and equipment	2 - 20
Furniture and fixtures	4
Motor vehicles	4 - 7

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Leases

The Group as lessee

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

3 Summary of significant accounting policies (continued)

Leases (continued)

The Group as lessee (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the ‘Property, plant and equipment’ policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line ‘Other expenses’ in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

3 Summary of significant accounting policies (continued)

Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the asset including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment or intangible asset category and is depreciated or amortised in accordance with the Group’s policies.

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3 Summary of significant accounting policies (continued)

Investment in associates (continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of. When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3 Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Net realisable value represents the estimated selling price, less the estimated cost of completion and costs to be incurred in marketing, selling and distribution.

Work in progress mainly pertain to clinker which a semi-finished goods as of the reporting.

Provision for employees' end of service benefit

End of service benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(a) Bonus and long-term incentive plans

The Group recognises the liability for bonuses and long-term incentives in profit and loss on an accrued basis. The benefits for the management are subject to board's approval and are linked to business performance.

(b) Defined contribution plan

Monthly pension contributions are made in respect of UAE National employees, who are covered by the Law No. 2 of 2000. The pension fund is administered by the Government of Abu Dhabi, Finance Department, represented by the Abu Dhabi Retirement Pensions and Benefits Fund.

3 Summary of significant accounting policies (continued)

Provision for employees' end of service benefit (continued)

(c) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group currently operates an unfunded scheme for defined benefits in accordance with the applicable provisions of the UAE Federal Labour Law and is based on periods of cumulative service and levels of employees' final basic salaries. The Group's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the yield at the valuation date on US AA-rated corporate bonds, which in the absence of a deep market in corporate bonds within the UAE is the relevant proxy market as determined by the actuaries.

The calculation of defined benefit obligation is performed regularly by a qualified actuary using the projected unit credit method. When benefits of the plan are improved, the portion of the increased benefit related to past service by employees is recognised in the profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss. The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans within profit or loss.

Foreign currencies

For the purpose of these consolidated financial statements, UAE Dirhams (AED) is the functional and the presentation currency of the Group.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Summary of significant accounting policies (continued)

Financial instruments

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

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

Initial recognition

On initial recognition, a financial asset is classified as measured at: amortised cost or fair value through profit or loss ("FVTPL").

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss account:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL
On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

Business model assessment
The Group entities make an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the frequency, volume and timing of trades of financial assets in prior periods, the reasons for such trades and its expectations about the future trading activity. However, information about trading activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised;
- how the performance of the portfolio is evaluated and reported to the management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows, nor held both to collect contractual cash flows and to sell financial assets.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

Initial recognition (continued)

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the outstanding principal.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principal, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial liabilities
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Financial liabilities, at initial recognition, may be designated at FVTPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in consolidated statement of profit or loss.

Subsequent measurement and gain or losses

Financial assets at amortised cost:
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated income statement. Any gain or loss on derecognition is recognised in the consolidated income statement.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

***Subsequent measurement and gain or losses* (continued)**

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated statement of profit or loss.

Financial liabilities at FVTPL
These liabilities are subsequently measured at fair value and net gains or losses are recognised in the consolidated income statement.

Financial liabilities at amortised cost
Mainly includes borrowings and trade and other payables. After initial recognition, the aforementioned liabilities are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

Reclassification

Financial assets
The Group reclassifies financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Group's operations and demonstrable to external parties.

Financial liabilities
The Group determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not permitted.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of profit or loss.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

Financial liabilities
If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of profit or loss.

Derecognition

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

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

Any interest in transferred financial assets that qualify for derecogniton that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Measured at amortised cost
Any gain or loss on derecognition of financial assets measured at amortised cost is recognised in the consolidated statement of profit or loss.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model under IAS 39 with a forward-looking ‘expected credit losses’ (‘ECL’) model. Assessing how changes in economic factors affect ECL requires considerable judgement. ECL are determined on a probability-weighted basis.

The Group recognises loss allowances for ECLs on the following instruments that are not measured at FVTPL:

- financial assets measured that are debt instruments carried at amortised cost or FVOCI; and
- financial guarantee contracts issued.

The Group measures loss allowances either using a general or simplified approach as considered appropriate.

Under the general approach, loss allowances are measured at an amount equal to 12-month expected credit loss except when there has been a significant increase in credit risk since inception. In such cases, the Group measures loss allowances at an amount equal to lifetime expected credit loss.

Under the simplified approach, loss allowances are always measured at an amount equal to lifetime expected credit loss.

Lifetime ECL: These losses are the ECL that result from all possible default events over the expected life of a financial instrument, if there is significant increase in credit risk or under simplified approach.

12-month ECL: These losses are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired: as the difference between the gross carrying amount and the present value of estimated future cash flows.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Measurement of ECL (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Reversals of impairment
If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated statement or profit or loss.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

4 Critical accounting judgments and key sources of estimation uncertainty

While applying the accounting policies as stated in note 3, 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. The critical accounting judgment and significant estimates made by management are summarised below.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Provision for rehabilitation and restoration of cement quarry

Management has considered the provisions of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in respect of provision for rehabilitation and restoration of cement quarry. Management has concluded that the costs relating to the rehabilitation will be negligible and therefore has not recognised any provision.

Covid-19

In March 2020, the World Health Organization (WHO) declared a new strain of coronavirus (COVID-19) as a pandemic outbreak after finding the increase in exposure and infections across the world. To contain the outbreak in the United Arab Emirates, the government enforced restriction of movement for both people and goods including the closure of both inbound and outbound flights to and from the country.

The outbreak comes with unpredictable human and economic consequences and its evolution remains unknown at the date of the issuance of the financial statements. As the situation is rapidly evolving, the impact on the Group's activities and operations remains extraordinarily uncertain.

The Group regularly assesses the impact of COVID-19 on its operations, business continuity, liquidity and legal obligations. The Group expects a continued recovery in the construction sector due to the easing of some of the restrictions that had been in place at the beginning of the pandemic.

The impact of this outbreak led to an increase in the expected credit loss as described above which led to the recognition of a higher provision in the current year. There was also a decrease in the forecast of future cash flows from operations when assessing for goodwill impairment (refer to note 6) and going concern (refer to note 3) The Group will continue to closely monitor the impact of COVID 19 and a prolonged continuation of the situation and/or another lockdown may lead to further provisions and/or impairment in future periods.

The Group has also introduced proactive comprehensive measures to address and mitigate key operational and financial issues arising from the current situation and has reasonably managed several areas of operational risks identified and implemented various measures that ensured continuity of the operations.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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:

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Impairment of goodwill and property, plant and equipment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows for which certain assumptions are required, including management's expectation of:

- long term growth rates in cash flows;
- future sales volume and price forecasts; and
- the selection of discount rates to reflect the risks involved.

The key assumptions used are detailed in note 6 of these consolidated financial statements. A change in the key assumptions and forecasts might result in an impairment of goodwill and other assets (if the impairment amount exceeds the value of goodwill).

Impairment of investments in associates

Management regularly reviews its investments in associates for indicators of impairment. This determination of whether investments in associates are impaired entails Management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. Any adverse changes in the investees future profitability, liquidity, solvency and ability to generate future cash flows could lead to an impairment of investments in associates. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in consolidated profit or loss. Based on the management's evaluation, an impairment of AED 28.8 million (2019: AED Nil) has been provided on its investments in associates.

Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impaired inventory. Management performed a review of the spare parts and consumables which involved a line by line physical inspection of each inventory item to assess obsolescence and usability. The allowance for obsolete inventories at 31 December 2020 is AED 54.9 million (2019: AED 54.9 million).

Calculation of expected credit loss (ECL) allowance

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The lifetime ECL on trade receivables as at 31 December 2020 amounted to AED 130.8 million (2019: AED 101.6 million).

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

5 Property, plant and equipment

	Land and buildings AED'000	Plant and equipment AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
1 January 2019	781,528	2,615,664	91,194	28,544	16,360	3,533,290
Additions	208	12,684	751	-	3,177	16,820
Disposals	-	(381)	-	-	-	(381)
1 January 2020	781,736	2,627,967	91,945	28,544	19,537	3,549,729
Additions	255	12,174	695	59	96	13,279
Capitalised	23	2,361	-	-	(2,384)	-
31 December 2020	**782,014**	**2,642,502**	**92,640**	**28,603**	**17,249**	**3,563,008**
Accumulated depreciation						
1 January 2019	345,561	1,119,392	65,429	27,001	664	1,558,047
Charge for the year	11,749	57,368	2,880	668	-	72,665
Disposals	-	(281)	-	-	-	(281)
1 January 2020	357,310	1,176,479	68,309	27,669	664	1,630,431
Charge for the year	11,532	57,094	3,580	273	-	72,479
31 December 2020	**368,842**	**1,233,573**	**71,889**	**27,942**	**664**	**1,702,910**
Carrying amount						
31 December 2020	**413,172**	**1,408,929**	**20,751**	**661**	**16,585**	**1,860,098**
31 December 2019	424,426	1,451,488	23,636	875	18,873	1,919,298

At 31 December 2020, properties with a carrying amount of AED 1,553 million (2019: AED 1,523 million) are held to secure bank loans (note 17).

Plant and equipment include an amount of AED 25.1 million (2019: AED 25.2 million) pertaining to spares parts. The depreciation charge has been allocated in profit or loss as follows:

	2020 AED'000	2019 AED'000
Direct costs (note 21)	**66,034**	66,159
Selling and distribution expenses (note 22)	**1,517**	1,099
General and administrative expenses (note 23)	**4,928**	5,407
	72,479	72,665

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

5 Property, plant and equipment (continued)

Capital work in progress

At 31 December 2020, capital work in progress amounting to AED 16.2 million (2019: AED 16.2 million) relates to a clinker storage shed currently being constructed at Al Ain Cement Factory.

6 Goodwill

The aggregate carrying amount of goodwill allocated for impairment testing to each cash-generating unit is as follows:

	2020 AED'000	2019 AED'000
Cement	**114,380**	114,380
Blocks	**14,050**	14,050
	128,430	128,430

Goodwill is stated at cost less any accumulated impairment losses if any, which are charged to profit or loss. An impairment test for goodwill is carried out annually or more frequently if events or changes in the circumstances indicate that the carrying value may be impaired.

During the year, the Group assessed the recoverable amount of goodwill in accordance with its strategic business structure, and determined that the goodwill is not impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units where the goodwill is monitored for internal management purposes. The recoverable amounts of Cement and Blocks cash generating units were based on their value-in-use determined by management. The carrying amounts of both units were determined to be lower than their recoverable amounts.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Directors of the Company covering a five-year period. Cash flows were projected based on past experience and the five year forecasted business plan based on the following key assumptions:

	2020 %	2019 %
Discount rate	**6.2**	6.4
Terminal growth rate	**1.5**	1.5

The values assigned to the key assumptions represent management's assessment of future trends in the building materials industry and are based on both external and internal sources.

6 Goodwill (continued)

The cash flows beyond that five-year period have been extrapolated using a steady 1.5% (2019: 1.5%) per annum growth rate which is the projected long-term average growth rate for the UAE economy. Future cash flows have been discounted using a weighted average cost of capital of 6.2% (2019: 6.4%) The cash flows assume no material change to the operations of the cash-generating units. The Directors of the Group believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Based on the above factors, the recoverable amount of the cash-generating units are greater than the carrying amounts, indicating that goodwill is not impaired as at the end of the reporting period.

Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. Management believe that any reasonably possible change in the key assumptions on which the recoverable amount of ‘Cement’ and ‘Blocks’ is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

A 15% underperformance against budgeted EBITDA would reduce the headroom in ‘Cement’ and ‘Blocks’ but would not result in an impairment charge.

An increase in the discount rate by 2% would reduce the headroom in ‘Cement’ and ‘Blocks’ but would not result in an impairment charge.

7 Investment in associates

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Principal activities	Proportion of ownership interest and voting rights held by the Group		Place of incorporation and principal place of business
		2020	2019	
Vision Hotel Apartment LLC	Ownership and management of hotel apartments	**40%**	40%	UAE
Deco Vision LLC	Property fit outs, decorations, ownership and management of apartments	**40%**	40%	UAE
Vision Furniture and Decoration Factory LLC	Carpentry of household, decoration, loose furniture and other woodwork	**40%**	40%	UAE
Deco Vision Properties LLC	Real estate enterprises investment	**40%**	40%	UAE
Vision Links Hotel Apartments LLC	Deluxe hotel apartments	**40%**	40%	UAE

All of the above associates are accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies in note 3.

The movement in the investment in associates is as follows:

	2020 **AED'000**	2019 AED'000
As at 1 January	**188,867**	192,365
Share of (loss)/profit of associates	**(197)**	3,702
Dividends received during the year	**(6,200)**	(7,200)
Impairment during the year*	**(28,821)**	-
As at 31 December	**153,649**	188,867

Dividends of AED 1,000 thousand (2019: AED 4,000 thousand), AED 2,400 thousand (2019: AED 3,200 thousand) and AED 2,800 thousand (2019: AED Nil) were received from Deco Vision LLC, Vision Furniture and Decoration Factory LLC and Vision Hotel Apartment LLC, respectively. The other summary information that precedes the reconciliation to the Group's carrying amount represents amounts included in the IFRS financial statements of the associates, not the entity's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

*On 4 November 2020, the Directors of Vision Group resolved to liquidate Vision Hotel Apartment LLC and appoint a legal liquidator to distribute the net assets of the shareholders after settlement of all liabilities. Accordingly, an impairment was recognised to reduce the carrying value of the investment down to its net realisable value. The liquidation proceedings is expected to be finalised by 30 June 2021.

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

7 Investment in associates (continued)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts in associates' draft financial statements prepared in accordance with IFRS Standards:

	Deco Vision LLC		Vision Furniture and Decoration Factory LLC		Vision Hotel Apartments		Others		Total	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000
Total assets	**250,105**	232,594	**58,167**	61,576	**8,193**	17,577	**3,585**	3,585	**320,050**	315,332
Total liabilities	**124,356**	102,145	**28,828**	28,316	**3,510**	5,562	**14,133**	14,133	**170,827**	150,156
Net assets	**125,749**	130,449	**29,339**	33,260	**4,683**	12,015	**(10,548)**	(10,548)	**149,223**	165,176
Group's share of net assets	**50,300**	52,180	**11,736**	13,304	**1,873**	4,822	-	-	**63,909**	70,306
Goodwill on acquisition	**79,883**	79,883	**9,857**	9,857	**28,821**	28,821	-	-	**118,561**	118,561
Impairment on Goodwill	-	-	-	-	**(28,821)**	-	-	-	**(28,821)**	-
Carrying amount	**130,183**	132,063	**21,593**	23,161	**1,873**	33,643	-	-	**153,649**	188,867
Revenue	**207,525**	143,786	**52,215**	58,382	**7,306**	7,801	-	-	**267,046**	209,969
Profit/(loss) for the year	**(3,040)**	2,960	**2,922**	6,516	**(374)**	(219)	-	-	**(492)**	9,257
Group's share on profit for the year at 40%	**(1,215)**	1,184	**1,168**	2,606	**(150)**	(88)	-	-	**(197)**	3,702

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

7 Investment in associates (continued)

	2020 AED'000	2019 AED'000
Unrecognised share of losses of an associate		
The unrecognised share of loss of an associate for the year	**-**	-
Cumulative share of loss of an associate	**6,133**	6,133

The Group has discontinued recognising share of losses from its associates Deco Vision Properties LLC and Vision Links Hotel Apartments L.L.C. as the Group does not have any legal or constructive obligation to fund further losses.

8 Inventories

	2020 AED'000	2019 AED'000
Raw materials	**123,563**	115,927
Work in progress	**142,291**	171,208
Finished goods	**44,908**	45,778
Spare parts and consumable materials	**140,998**	138,994
	451,760	471,907
Less: Allowance for impairment of inventories	**(54,942)**	(54,921)
	396,818	416,986

The movement in the allowance for impairment of inventories is as follows:

	2020 AED'000	2019 AED'000
As at 1 January	**54,921**	55,759
Reversal for the year	**(170)**	(1,156)
Impairment during the year	**191**	318
As at 31 December	**54,942**	54,921

9 Trade and other receivables

	2020	2019
	AED'000	AED'000
Trade receivables	**522,771**	566,416
Less: Loss allowance	**(130,789)**	(101,560)
	391,982	464,856
Prepayments	**19,574**	29,297
Advances to suppliers	**1,127**	1,497
Other receivables	**41**	164
	412, 724	495,814

The average credit period on sale of goods or services rendered is up to 365 days depending on the business segment, security provided and the credit standing of the customer. No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The Group has adopted a policy of dealing only with creditworthy counterparties. Adequate credit assessment is made before accepting an order for services or sale of goods from any counterparty. As of the reporting date, an amount of AED 27.5 million representing 5.3% of the trade receivables (2019: AED 27.2 million representing 4.8% of the trade receivables) is due from one customer (2019: one customer). The Group considers this customer to be reputable and creditworthy. There are no other customers who represent more than 2.5% of the total balance of the receivables.

The following table details the risk profile of trade receivables (for which there are no associated bank guarantees) based on the Group's provision matrix. As the Group's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished between the Group's different customer base.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

9 Trade and other receivables (continued)

Cement and blocks

31 December 2020

	Trade receivables - days past due							
	Not past due AED'000	**< 30 AED'000**	**31 - 60 AED'000**	**61 -90 AED'000**	**91-120 AED'000**	**120 - 365 AED'000**	**> 365 AED'000**	**Total AED'000**
Weighted average loss rates	**1.03%**	**3.79%**	**4.94%**	**8.05%**	**11.81%**	**40.06%**	**100%**	
Exposure at default	**92,047**	**17,218**	**8,361**	**7,568**	**4,049**	**23,567**	**85,815**	**238,625**
Lifetime ECL	**948**	**653**	**413**	**609**	**478**	**9,441**	**85,815**	**98,357**

Expected credit loss rates are based on actual credit loss experience over the past five years.

Pipes and bags

31 December 2020

	Trade receivables - days past due							
	Not past due AED'000	**< 30 AED'000**	**31 - 60 AED'000**	**61 -90 AED'000**	**91-120 AED'000**	**120 - 365 AED'000**	**> 365 AED'000**	**Total AED'000**
Weighted average loss rates	**1.38%**	**4.21%**	**4.94%**	**6.12%**	**8.09%**	**35.37%**	**100%**	
Exposure at default	**33,302**	**8,311**	**9,402**	**6,307**	**2,917**	**11,750**	**26,380**	**98,369**
Lifetime ECL	**460**	**350**	**464**	**386**	**236**	**4,156**	**26,380**	**32,432**

Expected credit loss rates are based on actual credit loss experience over the past four years.

The following table shows the movement in loss allowance:

	2020 AED'000	2019 AED'000
Balance as at 1 January	**101,560**	84,489
Net remeasurement of loss allowance	**29,229**	17,071
Balance as at 31 December	**130,789**	101,560

10 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash in hand	**109**	98
Cash at banks in current accounts	**73,853**	81,188
	73,962	81,286

11 Related parties

In the ordinary course of business, the Group enters into transactions at agreed terms and conditions which are carried out on commercially agreed terms, with other business enterprises or individuals that fall within the definition of a related party contained in International Accounting Standard 24 (IAS 24). Related parties comprise shareholders, directors, key management staff and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Government of Abu Dhabi, indirectly owns 51% of the Company's outstanding shares. The Group has elected to use the exemption under IAS 24 for government related entities on disclosing transactions and related outstanding balances with government related entities owned by the Government of Abu Dhabi other than the Parent Company and entities it owns and controls. The Company's significant transactions with the Government of Abu Dhabi and other entities controlled, jointly controlled or significantly influenced by the Government of Abu Dhabi are a large portion of its direct cost, lease rental payments and interest payments on certain loans.

The Group also has, at 31 December 2020, loans and cash balances with banks under the common control of the Government of Abu Dhabi, lease liabilities with and payables to Government municipalities and payables to a distribution company owned by the Government of Abu Dhabi.

Balances with these related parties generally arise from commercial transactions in the normal course of business on arm's length basis. Balances with related parties reflected in the consolidated statement of financial position at the reporting date comprised:

	2020 AED'000	2019 AED'000
Amounts due from related parties		
Emirates Steel Industries PJSC – sister company	**552**	983
National Petroleum (NPCC) – sister company	**170**	-
Others	**33**	33
	755	1,016
Amounts due to a related party		
General Holding Corporation PJSC (SENAAT)	**-**	561
Emirates Steel Industries PJSC – sister company	**20**	-
	20	561

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

11 Related parties (continued)

	2020 AED'000	2019 AED'000
Loan from a related party – the Parent Company		
Non-current	-	-
Current	**18,361**	36,730
	18,361	36,730

During 2011, the Group obtained a loan of USD 40 million (AED 146.9 million equivalent) from SENAAT (the "Shareholder Loan") with interest at prevailing market rates. The Group renegotiated the terms of the loan with the parent company on 30 November 2016. The original maturity of the loan was a bullet payment on 31 December 2016. Subsequently, the loan was restructured to be paid over 4 years semi-annually commencing from December 2016 carrying interest at prevailing market rates. An amount of USD 5 million (AED 18,369) was repaid in the year. As part of the amendment agreement entered into with its Term Loan 1 lenders (refer to notes 3 & 32), the Group shall not make repay any principal or interest under the Shareholder Loan until 17 December 2022.

Significant transactions with related parties during the year are as follows:

	2020 AED'000	2019 AED'000
Interest on loan from the Parent Company	**907**	2,122
Sales to a related party – Emirates Steel Industries PJSC	**2,565**	3,172
Purchases from a related party – Emirates Steel Industries PJSC	**299**	362
Sales to a related party – National Petroleum Construction Company	**53**	-
Key management personnel compensation		
Short term benefits	**8,251**	8,390
Post-employment benefits	**577**	677
	8,828	9,067
Financial guarantees provided to associates (note 27)	**77,211**	104,568

Terms and conditions of transactions with related parties

The sales to and services from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free except for loan from a related party and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which related party operates. There were no loans provided to directors for the year ended 31 December 2020 and 2019.

12 Leases

Group as a Lessee

The Group leases several assets including land, equipment and motor vehicles. The lease term of the assets are as follows:

	Years
Land and land rights	15 - 30
Equipment	2 - 3
Motor vehicles	2 - 3

Amounts recognised in statement of financial position

The Group's obligations are secured by the lessor's title to the leased assets for such leases.

	Land AED'000	Equipment AED'000	Motor vehicles AED'000	Land rights* AED'000	Total right-of-use assets AED'000	Total lease liabilities AED'000
Cost						
As at 1 January 2020 (note 31)	**152,780**	**1,283**	**1,840**	**93,776**	**249,679**	**154,329**
Additions	**-**	**-**	**62**	**-**	**62**	**62**
Disposals	**-**	**-**	**(138)**	**-**	**(138)**	**(146)**
Amortisation expense	**(6,067)**	**(885)**	**(1,093)**	**(8,461)**	**(16,506)**	**-**
Interest expense	**-**	**-**	**-**	**-**	**-**	**9,875**
Payments	**-**	**-**	**-**	**-**	**-**	**(14,280)**
As at 31 December 2020	**146,713**	**398**	**671**	**85,315**	**233,097**	**149,840**

	Land AED'000	Equipment AED'000	Motor vehicles AED'000	Land rights* AED'000	Total right-of-use assets AED'000	Total lease liabilities AED'000
Cost						
As at 1 January 2019	**158,822**	**2,452**	**4,064**	**102,237**	**267,575**	**169,364**
Additions	**-**	**-**	**92**	**-**	**92**	**92**
Disposals	**-**	**(493)**	**(552)**	**-**	**(1,045)**	**(1,062)**
Amortisation expense	**(6,042)**	**(676)**	**(1,764)**	**(8,461)**	**(16,943)**	**-**
Interest expense	**-**	**-**	**-**	**-**	**-**	**10,440**
Payments	**-**	**-**	**-**	**-**	**-**	**(24,505)**
As at 31 December 2019	**152,780**	**1,283**	**1,840**	**93,776**	**249,679**	**154,329**

*As part of the Purchase Price Allocation (PPA) exercise relating to the acquisition of the Cement Blocks Factories in 2006, land rights which pertain to a right of use of a certain land at favourable terms of AED 211.5 million was recorded representing the right of use of certain assets. The asset is being ammortised over a period of 30 years. Upon adoption of IFRS 16, the rights were presented under right-of-use assets (refer to note 31).

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

12 Leases (continued)

Amounts recognised in profit and loss

	2020	2019
	AED'000	AED'000
Amortisation	**(16,506)**	(16,944)
Finance costs (notes 19 and 24)	**(9,875)**	(10,440)
	(26,381)	(27,384)

13 Share capital

Share capital comprises of 1,750 million authorised, issued and fully paid ordinary shares with a par value of AED 1 each.

The share capital includes 892.5 million shares at a par value of AED 1 each, which had been issued for in-kind consideration.

14 Statutory reserve

In accordance with UAE Federal Law No. 2 of 2015, the Group is required to transfer annually to a legal reserve account an amount equal to 10% of its net profit, until such reserve reaches 50% of the issued and fully paid-up share capital of the Group. This reserve is not available for distribution.

15 Reserves

Capital reserve
Capital reserve represents the excess proceeds collected against offering cost for AED 857.50 million shares issued during 2006 at AED 0.025 per offer share after deducting actual expenses.

Other reserves
Other reserve represents cumulative gain or loss recorded due to re-measurement of provision for employees' end of service benefit resulting from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred).

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

16 Provision for employees' end of service benefit

The Group's obligation in respect of retirement benefits is recognised in the consolidated statement of financial position at the present value of the defined benefit at the end of the reporting period, including any adjustments for past service costs. The defined benefit plan is unfunded.

The following are the principal actuarial assumptions at the respective reporting date (expressed as weighted averages):

	2020 AED'000	2019 AED'000
Amounts recognised in consolidated statement of financial position		
Balance at 1 January	**44,544**	37,967
Current service cost (including interest cost)	**6,385**	6,643
Benefit payments	**(4,394)**	(2,633)
Loss on re-measurement	**2,493**	2,567
Balance at 31 December	**49,028**	44,544
Amounts recognised in consolidated statement of profit or loss		
Current service cost	**5,103**	5,129
Interest expense	**1,282**	1,514
	6,385	6,643
Amounts recognised in consolidated statement of comprehensive income		
Loss due to experience adjustments	**2,493**	2,567

Significant actuarial assumptions	**2020**	2019
Discount rate	**2.2%**	3.1%
Rate of salary increase	**5%**	5%
Turnover rate – voluntary rate	**5%**	5%

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

16 Provision for employees' end of service benefit (continued)

Sensitivity analysis:	Increase AED'000	Decrease AED'000
2020		
Provision - discount rate (0.5% movement)	**46,523**	**51,760**
Provision - future salary (0.5% movement)	**51,671**	**46,576**
2019		
Provision - discount rate (0.5% movement)	42,410	46,844
Provision - future salary (0.5% movement)	46,789	42,437

17 Borrowings

Bank borrowings are repayable as follows:

	2020 AED'000	2019 AED'000
Non-current		
After one year	**403,678**	4,522
Current		
Within one year	**529,327**	938,844
	933,005	943,366

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

17 Borrowings (continued)

The details of the bank borrowings are stated as follows:

		Outstanding at 31 December 2020			Outstanding at 31 December 2019		
	Maturity	**Current AED'000**	**Non-current AED'000**	**Total AED'000**	Current AED'000	Non-current AED'000	Total AED'000
Term loan 1	**2024**	**133,200**	**400,800**	**534,000**	667,200	-	667,200
Term loan 2	**2023**	**1,644**	**2,878**	**4,522**	1,644	4,522	6,166
Short term loan 1	**2020**	**105,000**	-	**105,000**	90,000	-	90,000
Short term loan 2	**2020**	**132,100**	-	**132,100**	90,000	-	90,000
Short term loan 3	**2020**	**100,000**	-	**100,000**	90,000	-	90,000
Short term loan 4	**2020**	**49,800**	-	**49,800**	-	-	-
Short term loan 5	**2020**	**7,583**	-	**7,583**	-	-	-
		529,327	**403,678**	**933,005**	938,844	4,522	943,366

Term loan 1 is a 10-year term loan of AED 1,200 million obtained in 2014 by the Group to finance the construction of the Group's new cement factory. The term loan is payable over 9 years semi-annually commencing from March 2016. The loan carries variable interest at EIBOR plus a margin. The term loan is secured by assets with a carrying amount of AED 1,553 million (2019: AED 1,523 million) (note 5). Subsequent to the year end, the Group entered into an agreement with its Term Loan 1 lenders for a repayment holiday up to 17 December 2022. Consequently, AED 133,200 thousand of the AED 529,327 thousand and AED 18,361 thousand borrowing balance presented as a current liability as at 31 December 2020 is not expected to result in cash outflows until 17 December 2022.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Group. The loan is repayable in 36 equal quarterly installments from November 2014 and carries variable rate of interest.

Short term loan 1 with facility amount of AED 150 million was obtained from an Islamic bank for financing the working capital of the Group. The loan is repayable in 180 days and carries variable rate of interest.

Short term loan 2 of AED 150 million was obtained from Islamic bank for financing the working capital of the Company. The loan is repayable in 180 days and carries variable rate of interest.

Short term loan 3 with facility amount of AED 100 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 180 days carries variable rate of interest.

Short term loan 4 with facility amount of AED 50 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable rate of interest.

Short term loan 5 with facility amount of AED 25 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable rate of interest.

Notes to the condensed consolidated interim financial statements for the year ended 31 December 2020 (continued)

17 Borrowings (continued)

Changes from financing cash flows related to borrowings

	31 December 2020 AED'000 (audited)	31 December 2019 AED'000 (audited)
Balance at the beginning of the year	**943,366**	848,274
Settlement of term loans	**(134,844)**	(134,845)
Settlement of short term loans	**(270,000)**	(40,063)
Proceeds from short term loans	**394,483**	270,000
Interest paid	**(33,981)**	(47,007)
Total changes from financing cash flows	**(44,342)**	48,085
Other changes / liability related		
Interest expense	**43,856**	57,447
Changes in accruals	**(9,875)**	(10,440)
Total liability related to other changes	**33,981**	47,007
Balance at the end of the year	**933,005**	943,366

18 Trade and other payables

	2020 AED'000	2019 AED'000
Trade payables	**289,531**	414,329
Accruals	**68,109**	56,556
VAT payable	**979**	1,298
Interest payable	**2,433**	3,267
Other payables	**24,095**	33,229
	385,147	508,679

The average credit period on purchase of goods and services is 90 to 150 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest is charged on trade and other payables.

Trade payables includes an amount payable to Al Ain City Municipality of AED 17.2 million (2019: 22.9 million) and AED 159.7 million (2019: AED 275.7 million) to ADNOC.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

19 Lease liabilities

	2020 AED'000	2019 AED'000
As at 1 January	**154,329**	169,365
Additions during the year	**61**	92
Disposals during the year	**(145)**	(1,063)
Accretion of interest during the year (notes 12 and 24)	**9,875**	10,440
Payments during the year	**(14,280)**	(24,505)
As at 31 December	**149,840**	154,329

	2020 AED'000	2019 AED'000
Maturity analysis		
Not later than 1 year	**3,658**	4,337
Later than 1 year and not later than 5 years	**20,186**	20,532
Later than 5 years	**125,996**	129,460
	149,840	154,329

The Group does not face a significant liquidity risk with regard to its liabilities. Lease liabilities are monitored within the Group's treasury function.

20 Revenue

The Group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the following product lines. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 *Operating Segments* (note 28).

	2020 AED'000	2019 AED'000
Disaggregation of revenue		
Cement	**415,713**	511,937
Blocks	**177,560**	197,443
GRP pipes	**82,053**	45,590
PVC pipes	**76,275**	73,149
Bags	**16,828**	15,035
Transportation revenue	**60,253**	59,282
	828,682	902,436

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

21 Direct costs

	2020 AED'000	2019 AED'000
Raw materials consumed	**299,803**	309,251
Fuel and electricity	**149,646**	181,099
Salaries and benefits	**64,033**	65,296
Depreciation of property, plant and equipment	**66,034**	66,159
Transportation charges	**53,414**	58,532
Other expenses	**47,489**	19,064
	680,419	699,401

22 Selling and distribution expenses

	2020 AED'000	2019 AED'000
Salaries and related expenses	**17,957**	21,447
Depreciation of property, plant and equipment	**1,517**	1,099
Other expenses	**6,056**	3,280
	25,530	25,826

23 General and administrative expenses

	2020 AED'000	2019 AED'000
Salaries and related expenses	**59,772**	61,986
Depreciation of property, plant and equipment	**4,928**	5,407
Other expenses	**25,674**	21,581
	90,374	88,974

**Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)**

24 Finance income and cost

	2020 AED'000	2019 AED'000
Finance income		
Interest income on bank deposits	**29**	56
Finance cost		
Interest on borrowings	**(33,981)**	(47,007)
Interest accreted on lease liabilities (notes 12 and 19)	**(9,875)**	(10,440)
	(43,856)	(57,447)

25 Other income

	2020 AED'000	2019 AED'000
Sale of scrap assets of Emirates Cement Factory*	**3,236**	10,267
Proceed from ECF insurance claim	**-**	18,345
Others	**128**	240
	3,364	28,852

*In December 2016, the Group had discontinued operations of its Emirates Cement Factory ("ECF"). In 2019, via a tender process, management shortlisted a buyer for scrap assets of ECP with a total value of AED 50 million (including VAT). The Group received AED 35.34 million (excluding VAT) from the buyer as of the reporting date and has provided access to the buyer to scrap assets corresponding to the amount received from the buyer. Accordingly, the amount received from the buyer was recorded as other income since the Group has satisfied its performance obligation related to the amount received. The Group will provide access to the buyer for remaining scrap items once the remaining amount is collected from the buyer.

26 Impairment losses on non-financial assets

	2020 AED'000	2019 AED'000
Impairment loss on an associate (note 7)	**28,821**	-
Impairment loss on inventories (note 8)	**191**	318
	29,012	318

27 Contingent liabilities and commitments

	2020 **AED'000**	2019 AED'000
Bank guarantees and letters of credit	**24,896**	8,531
Capital commitments	**9,612**	13,306
Performance guarantees provided to associates	**77,211**	104,568

The above bank guarantees and letters of credit were issued in the normal course of business.

28 Segment reporting

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Board of Directors review internal management reports on at least a quarterly basis.

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

- Cement segment, which includes production and sale of cement;
- Blocks segment, which includes production and distribution of blocks;
- Glass Reinforced Polyester ("GRP") Pipes; and Pipes segments, which include the production and sale of Poly-Vinyl Chloride ("PVC") Pipes; and
- Bags segment, which includes production and sale of paper bags.

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 Group's CEO and Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

28 Segment reporting (continued)

For the year ended 31 December 2020	Cement AED'000	Blocks AED'000	GRP Pipes AED'000	PVC Pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	447,122	201,912	84,601	78,219	16,828	-	-	828,682
Intersegment revenue	30,036	-	-	-	6,389	-	(36,425)	-
Timing of revenue recognition								
At a point in time	447,122	201,912	84,601	78,219	16,828	-	-	828,682
Over time	-	-	-	-	-	-	-	-
Interest expense	41,993	1,645	33	-	-	185	-	43,856
Depreciation and amortization	56,361	18,345	5,747	2,127	222	6,183	-	88,985
Impairment losses	3,301	17,919	3,000	3,500	1,700	28,821	-	58,241
Share of loss of equity accounted investees	-	-	-	-	-	(197)	-	(197)
Profit/(loss) for the year	(7,585)	(6,830)	20,019	2,293	(1,394)	(73,045)	-	(66,542)
Total assets	4,582,874	400,476	100,515	160,152	40,755	1,503,329	(3,528,568)	3,259,533
Total liabilities	1,901,770	225,464	28,214	45,875	83,628	2,783,875	(3,533,425)	1,535,401

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

28 Segment reporting (continued)

For the year ended 31 December 2019	Cement AED'000	Blocks AED'000	GRP Pipes AED'000	PVC Pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	543,472	222,369	46,989	74,571	15,035	-	-	902,436
Intersegment revenue	29,083	-	-	-	5,431	-	(34,514)	-
Timing of revenue recognition								
At a point in time	543,472	222,369	46,989	74,571	15,035	-	-	902,436
Over time	-	-	-	-	-	-	-	-
Interest expense	55,137	1,612	-	-	-	698	-	57,447
Depreciation and amortization	57,695	17,685	5,895	1,927	223	6,184	-	89,609
Impairment losses	7,336	9,016	627	208	202	-	-	17,389
Share of profit of equity accounted investees	-	-	-	-	-	3,702	-	3,702
Profit/(loss) for the year	72,913	7,545	2,376	4,163	(1,960)	(39,028)	-	46,009
Total assets	4,326,414	424,310	91,215	151,589	42,084	1,520,352	(3,074,588)	3,481,376
Total liabilities	1,654,705	240,358	19,955	30,297	74,472	2,710,832	(3,042,410)	1,688,209

29 Financial instruments

Capital risk management

The Group manages its capital to be able to continue as a going concern while maximising the return to Shareholders. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Group's overall strategy remains unchanged from the prior year.

Financial risk management objectives

The Group is exposed to the following risks related to financial instruments - credit risk, liquidity risk, foreign currency risk and price risk. The Group has not framed formal risk management policies, however, the risks are monitored by management on a continual basis. The Group does not enter into or trade in financial instruments, investment in securities, including derivative financial instruments, for speculative or risk management purposes.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are trade and other receivables and bank and cash balances (liquid assets).

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Concentration of credit risk arise when a number of counterparties 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. Details on concentration of trade receivable balances are disclosed in note 9. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its trade customers

Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the UAE Central Bank. Trade receivables are secured by bank guarantees and letter of credits totaling AED 205 million (2019: AED 189 million) and post-dated cheques of AED 136 million (2019: AED 222 million). 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.

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

29 Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. The table below summarises the maturity profile of the Group's non-derivative financial liabilities. The contractual maturities of the financial liabilities have been determined on the basis of the remaining period at the end of reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the non-derivative financial liabilities at the end of reporting period based on contractual repayment arrangements are as follows:

	Less than 1 year AED'000	1 – 5 Years AED'000	More then 5 years AED'000	Total AED'000
2020				
Non-interest bearing	**385,167**	**-**	**-**	**385,167**
Variable interest rate instruments**	**571,488**	**448,830**	**-**	**1,020,318**
	956,655	**448,830**	**-**	**1,405,485**
2019				
Non-interest bearing	509,240	-	-	509,240
Variable interest rate instruments*	1,005,337	72,674	-	1,078,011
	1,514,577	72,674	-	1,587,251

* In the prior year, due to the breach of one of the covenants associated with Term Loan 1, the entire balance was presented as contractually due within one year. In the current year, management have obtained a waiver for the breach of the same covenant for the year end 31 December 2020.

** Subsequent to the year end, the Group entered into an amendment agreement with its Term Loan 1 lenders for a repayment holiday up to 17 December 2022 (refer to notes 3 & 32). Consequently, AED 151.6 million of the cash outflows presented as part of the AED 571.5 million balance due in less than 1 year will not occur until 17 December 2022.

Foreign currency risk

The Group's transactions are principally in UAE Dirhams or US Dollars, to which the UAE Dirham is pegged and therefore the Group does not face any foreign currency risks.

29 Financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its bank borrowings that carry both fixed and floating interest rates which are detailed in note 17.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rates mainly arising from bank borrowings, assuming the amount of liability at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2020 would decrease/increase by AED 9.3 million (2019: decrease/increase by AED 9.4 million).

Fair value of financial instruments

The Group's management considers that the carrying amount of financial assets and financial liabilities approximates their fair value.

30 Basic and diluted earnings per share

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

	2020	2019
(Loss)/profit attributable to equity holders of the parent (AED'000)	**(66,542)**	46,009
Weighted average number of shares in issue (thousands of shares)	**1,750,000**	1,750,000
Earnings per share (AED)	**(0.038)**	0.026

The Group does not have potentially dilutive shares and accordingly, diluted earnings per share is equal to basic earnings per share.

31 Comparative figures

Other intangible assets in the prior year has been reclassified to right-of-use assets to conform to the requirements of IFRS 16, *Leases*. Impairment loss on financial assets in the prior year has been presented as a separate line item in the statement of profit or loss to conform to the requirements of IAS 1, *Presentation of Financial Statements*. The reclassifications had no impact on the overall result for the prior year, and as such, a statement of financial position as at the beginning of earliest comparative period has not been presented.

	As previously reported AED	**Reclassification AED**	**As reclassified AED**
Statement of financial position as at 31 December 2019			
Right-of-use assets	155,903	93,776	**249,679**
Other intangible assets	93,776	(93,776)	-
Statement of profit and loss for the year ended 31 December 2019			
Impairment loss on financial assets	-	(17,071)	**(17,071)**
Impairment losses	(17,389)	17,071	**(318)**

32 Subsequent events

On 9 March 2021, the Group entered into an amendment agreement with its Term Loan 1 lenders. As part of the amendment agreement, the Group will not make any repayments on the facility until 17 December 2022. The Group will also not repay any portion of the Shareholder Loan before this date. The Group will also not be tested for compliance with financial covenants until after the financial year ended 31 December 2022.

The Federal Decree-Law No. 26 of 2020 on the amendment of certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and shall take effect starting from 2 January 2021. The Group shall apply and adjust their status in accordance with the provision thereof (to the extent applicable) by no later than one year from the date on which this Decree-Law takes effect.

33 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 11 March 2021.