

**DRAKE AND SCULL INTERNATIONAL
PJSC & ITS SUBSIDIARIES**

**Interim condensed consolidated financial statements
(Unaudited)**

30 September 2020

**Interim condensed consolidated financial statements
30 September 2020**

	Pages
Report on review on interim condensed consolidated financial statements	1 - 3
Interim consolidated statement of financial position	4 - 5
Interim consolidated income statement	6
Interim consolidated statement of other comprehensive income	7
Interim consolidated statement of changes in equity	8
Interim consolidated statement of cash flows	9 - 10
Notes to the interim condensed consolidated financial statements	11 - 27



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C.

Introduction

We were engaged to review the accompanying interim condensed consolidated financial statements of Drake and Scull International P.J.S.C. (the “Company”) and its subsidiaries (together the “Group”) as at 30 September 2020, which comprise the interim consolidated statement of financial position as at 30 September 2020 and the related interim consolidated statements of income and other comprehensive income for the three and nine month periods then ended and interim consolidated statements of changes in equity and cash flows for the nine month period then ended and explanatory notes thereto. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

Our responsibility is to conduct a review of the Group’s interim condensed consolidated financial statements in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” However, because of the significance of the matters described in the Basis for Disclaimer of Conclusion section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion on these interim condensed consolidated financial statements.

Basis for disclaimer of conclusion

1. Comparative information and opening balances

Comparative information included in the interim consolidated statements of income, other comprehensive income for the three month and nine month period ended 30 September 2019 and statement of cash flows for the nine month period ended 30 September 2019 were not reviewed. In the absence of any practicable alternative review procedures that we could carry out, considering there was no review report issued on the interim condensed consolidated financial statements for the three month and nine month period ended 30 September 2019, we were unable to ascertain whether any misstatements in those balances would have had a material impact on the comparative information included in the interim condensed consolidated financial statements for the three month and nine month period ended 30 September 2020.

Further, we issued a disclaimer of opinion on the consolidated financial statements of the Group as of and for the year ended 31 December 2019 as a result of a number of significant and pervasive audit issues. As opening balances enter into the determination of the results for the current period, and in the absence of any practicable alternative review procedures that we could carry out in this regard, we were unable to ascertain whether any misstatements in those balances would have a material impact on the interim condensed consolidated financial statements for the three month and nine month period ended 30 September 2020.

2. Disposal of interest in Drake & Scull International (Qatar) WLL

As disclosed in note 19 to the accompanying interim condensed consolidated financial statements, the Group has disposed of its interest in Drake & Scull International (Qatar) WLL for which the gain on disposal amounting to AED 354 million is included in the interim condensed consolidated income statement. We were not provided with financial information for the period up to the date of disposal and, accordingly, were unable to perform sufficient appropriate review procedures with regards to the fair value of the investment and gain on disposal included in the interim condensed consolidated income statement for the period ended 30 September 2020.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C.

Basis for disclaimer of conclusion (continued)

2. Disposal of interest in Drake & Scull International (Qatar) WLL (continued)

Furthermore, the sale and purchase agreement entered into with the buyer is signed during the three months period ended 30 September 2020 and, accordingly, should have been recorded in these interim condensed consolidated financial statements. However, the Group has already recorded this transaction in the interim condensed consolidated financial statements for the period ended 30 June 2020. Consequently, profit for the three months period ended 30 September 2020 is understated by AED 354 million.

3. Bank balances and liabilities

We were not provided with bank statements and reconciliations for bank balances and bank liabilities, including commitments and contingencies, included in the interim condensed consolidated financial statements of AED 43 million, AED 2,710 million and AED 1,267 million as of 30 September 2020, respectively. In the absence of any practicable procedures that we could perform in respect of this matter, we were unable to conclude our review of these balances, including any other liabilities which might not be accounted in these financial statements, as of 30 September 2020.

4. Going concern assessment and restructuring plan

As detailed in note 2.1 to the interim condensed consolidated financial statements, the Group's accumulated losses as of 30 September 2020 amounted to AED 4,876 million, and its current liabilities exceeded its current assets by AED 4,062 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, it may not be able to realise its assets and discharge its liabilities in the normal course of business.

The accompanying interim condensed consolidated financial statements, however, have been prepared on a going concern basis based on a restructuring plan developed by management in consultation with the board of directors of the Company and approval of the shareholders. The Group's going concern assumption, and the impact of the restructuring plan on its interim condensed consolidated financial statements as at 30 September 2020 are highly dependent on the successful execution of the plan, including approval by lenders, regulators and other relevant stakeholders, and cannot be determined at this stage. Further, the Group is in the process of collecting details of creditor claims and reconciling them with that recorded in the Group's books. This process has not been completed, and we are unable to determine if any adjustments are required to the interim condensed consolidated financial statements for the period ended 30 September 2020.

The consolidated financial statements for the year ended 31 December 2019 were also disclaimed in respect to the above and other matters.



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C.

Disclaimer of conclusion

Due to the significance of the matters described in the *Basis for disclaimer of conclusion* section of our report, we were unable to obtain sufficient appropriate evidence to form basis of a review conclusion on the accompanying interim condensed consolidated financial statements of the Group as at 30 September 2020. Accordingly, we do not express a conclusion on these interim condensed consolidated financial statements.

For Ernst & Young

A handwritten signature in blue ink, appearing to read 'Ashraf Abu-Sharkh', is written over a faint, light blue horizontal line.

Signed by:
Ashraf Abu-Sharkh
Partner
Registration No. 690

12 November 2020
Dubai, United Arab Emirates

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	<i>Notes</i>	30 September 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	7	44,860	45,459
Investment property		95,766	100,000
Right-of-use assets		6,498	7,453
Deferred income tax assets		15,815	15,106
Equity accounted investments		11,663	6,251
Trade and other receivables	8	95,641	95,836
		270,243	270,105
Current assets			
Inventories		29	541
Trade and other receivables	8	248,086	235,958
Due from related parties	9	15,938	43,265
Financial assets at fair value through profit or loss		1,058	1,058
Cash and bank balances	10	97,960	79,789
		363,071	360,611
Assets held for sale		1,578	1,585
		364,649	362,196
TOTAL ASSETS		634,892	632,301
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1,070,988	1,070,988
Share premium		3,026	3,026
Statutory reserve		125,760	125,760
Accumulated losses		(4,875,554)	(5,005,382)
Foreign currency translation reserve		(54,423)	(58,604)
Deficiency of assets attributable to equity holders of the parent		(3,730,203)	(3,864,212)
Non-controlling interests		(123,648)	(123,684)
Total deficiency of assets		(3,853,851)	(3,987,896)

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 September 2020

	<i>Notes</i>	30 September 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits		56,160	69,320
Lease liabilities		5,478	5,778
		<u>61,638</u>	<u>75,098</u>
Current liabilities			
Provision for bank liabilities of subsidiaries	18	1,220,780	723,379
Bank borrowings	11	1,907,307	1,788,343
Trade and other payables		1,090,613	1,039,184
Due to related parties	9	36,899	34,376
Lease liabilities		1,281	1,429
Provision for loss of control over subsidiaries	19	25,294	813,407
		<u>4,282,174</u>	<u>4,400,118</u>
Liabilities associated with discontinued operations		144,931	144,981
		<u>4,427,105</u>	<u>4,545,099</u>
Total liabilities		<u>4,488,743</u>	<u>4,620,197</u>
TOTAL EQUITY AND LIABILITIES		<u>634,892</u>	<u>632,301</u>

The interim condensed consolidated financial statements were approved by the Board of Directors on 12 November 2020 and signed on its behalf by:

Chairman

CEO

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2020 (Unaudited)

		<i>Three months period ended 30 September</i>		<i>Nine-months period ended 30 September</i>	
		<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
<i>Notes</i>		<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Continuing operations					
Revenue from contracts with customers	6	40,902	78,473	118,420	338,968
Cost of revenue		(33,850)	(188,070)	(104,218)	(566,104)
Gross profit / (loss)		7,052	(109,597)	14,202	(227,136)
Other income		5,911	889	14,227	5,627
General and administrative expenses	12 a	(14,026)	(234,247)	(65,856)	(820,511)
Provision for legal cases		(38,429)	-	(48,429)	-
Provision for bond encashment	12 b	(4,659)	-	(66,318)	-
Share of results of joint venture		502	-	5,412	-
Gain on disposal of subsidiary	19	-	-	353,708	-
Provision related to subsidiaries with loss of control		-	-	-	(94,254)
Finance costs	12 c	(26,477)	(28,127)	(77,267)	(64,249)
Finance income		129	264	240	505
Profit/(loss) before tax from continuing operations		(69,997)	(370,818)	129,919	(1,200,018)
Income tax expense and zakat	13	56	(1,726)	(91)	(4,718)
Profit/(loss) from continuing operations		(69,941)	(372,544)	129,828	(1,204,736)
Discontinued operations					
Loss after tax from discontinued operations		-	-	-	(5,330)
PROFIT/(LOSS) FOR THE PERIOD		(69,941)	(372,544)	129,828	(1,210,066)
Attributable to:					
Equity holders of the parent		(69,941)	(288,181)	129,828	(1,065,425)
Non-controlling interests		-	(84,363)	-	(144,641)
		(69,941)	(372,544)	129,828	(1,210,066)
Earnings/(loss) per share					
Basic and diluted (AED)	14	(0.07)	(0.35)	0.12	(0.99)

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the period ended 30 September 2020 (Unaudited)

	<i>Three months period ended 30 September</i>		<i>Nine-months period ended 30 September</i>	
	<i>2020 AED'000</i>	<i>2019 AED'000</i>	<i>2020 AED'000</i>	<i>2019 AED'000</i>
(Loss) / profit for the period	(69,941)	(372,544)	129,828	(1,210,066)
<i>Items that would be reclassified subsequently to profit or loss</i>				
Currency translation differences	987	1,157	862	3,713
Exchange difference transferred to income statement on disposal of subsidiary with loss of control (note 19)	-	-	3,355	-
Other comprehensive income for the period	987	1,157	4,217	3,713
TOTAL COMPREHENSIVE INCOME /(LOSS) FOR THE PERIOD	(68,954)	(371,387)	134,045	(1,206,353)
Attributable to:				
Equity holders of the parent	(68,954)	(287,024)	134,009	(1,061,712)
Non-controlling interests	-	(84,363)	36	(144,641)
	(68,954)	(371,387)	134,045	(1,206,353)

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2020 (Unaudited)

Attributable to the equity holders of the parent

	<i>Share capital AED'000</i>	<i>Share premium AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Other reserve AED'000</i>	<i>Accumulated losses AED'000</i>	<i>Foreign currency translation reserve AED'000</i>	<i>Total AED'000</i>	<i>Non-controlling interests AED'000</i>	<i>Total AED'000</i>
Balance at 1 January 2020 (audited)	1,070,988	3,026	125,760	-	(5,005,382)	(58,604)	(3,864,212)	(123,684)	(3,987,896)
Profit for the period	-	-	-	-	129,828	-	129,828	-	129,828
Other comprehensive income for the period	-	-	-	-	-	4,181	4,181	36	4,217
Total comprehensive income for the period	-	-	-	-	129,828	4,181	134,009	36	134,045
Balance at 30 September 2020 (unaudited)	1,070,988	3,026	125,760	-	(4,875,554)	(54,423)	(3,730,203)	(123,648)	(3,853,851)
Balance at 1 January 2019 (audited)	1,070,988	3,026	125,760	24,543	(4,942,918)	(63,728)	(3,782,329)	(966,593)	(4,748,922)
Loss for the period	-	-	-	-	(1,065,425)	-	(1,065,425)	(144,641)	(1,210,066)
Other comprehensive income for the period	-	-	-	-	-	3,713	3,713	-	3,713
Total comprehensive income/(loss) for the period	-	-	-	-	(1,065,425)	3,713	(1,061,712)	(144,641)	(1,206,353)
Balance at 30 September 2019 (unaudited)	1,070,988	3,026	125,760	24,543	(6,008,343)	(60,015)	(4,844,041)	(1,111,234)	(5,955,275)

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2020 (Unaudited)

		<i>Nine-months period ended 30 September</i>	
		2020	2019
		AED'000	AED'000
	<i>Notes</i>		
Operating activities			
Profit/(loss) before tax from continuing operations		129,919	(1,200,018)
Loss before tax from discontinued operations		-	(5,330)
		129,919	(1,205,348)
Profit before tax		129,919	(1,205,348)
Adjustments for:			
Depreciation of property and equipment	7	559	9,726
Depreciation of investment property		4,234	-
Share of results of joint venture		(5,412)	-
Expenses related to disposed off subsidiary		3,529	-
Provision for legal cases		48,429	-
Provision for bond encashments	12 b	66,318	115,260
Provision for slow moving inventories		502	-
Provision for employees' end of service benefits		2,721	3,886
Loss on disposal of property and equipment	7	94	-
Loss on disposal of investments		-	5,875
Finance cost	12 c	77,267	64,249
Provision for expected credit losses	8	7,229	778,782
Write off of other receivables	12 a	5,357	-
Finance income		(240)	(505)
Gain on disposal of subsidiary	19	(353,708)	-
Depreciation of right-of-use asset		1,106	-
Interest on lease liabilities		388	-
Write back of provisions		(6,011)	-
		(17,719)	(228,075)
Changes in working capital:			
Inventories		10	1,674
Trade and other receivables		(28,922)	74,895
Trade and other payables (excluding income tax and interest payable)		37,955	(9,791)
Due to / from related parties		29,798	(224)
		21,122	(161,521)
Payment of employees' end of service benefits		(12,017)	(12,991)
		9,105	(174,512)
Net cash from / (used) in operating activities		9,105	(174,512)
- Continuing operations		9,105	(174,512)
- Discontinued operations		-	623
		9,105	(173,889)

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the period ended 30 September 2020 (Unaudited)

	Notes	<i>Nine-months period ended 30 September</i>	
		<i>2020</i> <i>AED'000</i>	<i>2019</i> <i>AED'000</i>
Investing activities			
Purchase of property and equipment	7	(93)	(231)
Proceeds from disposal of property and equipment	7	102	-
Proceeds from disposal of investment in an associate		-	90,125
Interest received		240	505
		<hr/>	<hr/>
Net cash from / (used) in investing activities			
- Continuing operations		249	90,399
- Discontinued operations		-	(13)
		<hr/>	<hr/>
		249	90,386
		<hr/>	<hr/>
Financing activities			
Encashment of term deposits under lien		9,889	6,820
Proceeds from term loans		-	21,993
New term deposits open during the period		(8,259)	(18,975)
Proceeds from trust receipts and other borrowings		-	32,798
Payment of term loans		(500)	(3,567)
		<hr/>	<hr/>
Net cash generated from financing activities			
- Continuing operations		1,130	39,069
- Discontinued operations		-	19,020
		<hr/>	<hr/>
		1,130	58,089
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
		10,484	(25,414)
Net foreign currency translation difference		6,642	(1,739)
Cash and cash equivalents at the beginning of the period		(94,063)	(459,225)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
		(76,937)	(486,378)
		<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 20 form part of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

1 CORPORATE INFORMATION

Drake and Scull International PJSC (the “Company” or the “Parent Company”) was incorporated on 16 November 2008 and was registered on 21 January 2009 as a Public Joint Stock Company in accordance with the UAE Federal Law No. (2) of 2015. The Company is listed on the Dubai Financial Market.

The address of the Company’s registered office is PO Box 65794, Dubai, United Arab Emirates.

The principal activities of the Company and its subsidiaries (together, the “Group”) are carrying out contracting work relating to the construction industry, such as electrical, plumbing, oil and gas, air conditioning and sanitation work in the Middle East, Europe, Asia and North Africa region.

The Group has either directly or indirectly the following major subsidiaries:

<i>Major Subsidiaries</i>	<i>Principal activities</i>	<i>Shareholding %</i>		<i>Country of incorporation</i>
		<i>30 September 2020</i>	<i>31 December 2019</i>	
Drake & Scull International LLC (Abu Dhabi)	Contracting work related to mechanical, electrical and sanitary engineering	100	100	UAE
Gulf Technical Construction Company LLC *	Mechanical, electrical and civil construction work	-	-	UAE
Drake & Scull Engineering formerly Drake & Scull Water and Power LLC	Engineering, procurement and construction of Water and Power Infrastructure projects	100	100	UAE
Drake & Scull International (Qatar) WLL **	Mechanical, electrical and plumbing activities	-	100	Qatar
Passavant Energy & Environment and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International Saudia Company Limited*	Implementation of construction contracts, operation and maintenance of electrical and mechanical installations and related activities	-	-	Saudi Arabia
Drake & Scull International for Electrical Contracting WLL	Mechanical, electrical contracting and repairing work relating to the construction industry	100	100	Kuwait
International Center for Contracting Co. Ltd *	Contracting work relating to the construction industry	-	-	Saudi Arabia
Drake & Scull Construction Company LLC *	Contracting work relating to the construction industry	-	-	Saudi Arabia
Drake & Scull International for Contracting SAE	Contracting work relating to mechanical, electrical and sanitary engineering	100	100	Egypt
Drake & Scull International LLC (Oman)	Contracting work related to mechanical, electrical and sanitary engineering	51	51	Oman

* During the year ended 31 December 2019, the Group disposed off its holdings in these subsidiaries pending transfer of legal ownership which is in progress as at the date of issuance of these interim condensed consolidated financial statements.

** During the year ended 31 December 2018, the Group administratively and operationally lost control over its subsidiary in Qatar. During the six-month period ended 30 June 2020, the Group disposed off its entire stake (legal and economic benefits) in the subsidiary pending transfer of legal ownership which is in progress as at the date of issuance of these interim condensed consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

1 CORPORATE INFORMATION (continued)

The Group operates in various jurisdictions such as Germany, India, Saudi Arabia, Algeria, Jordan and Iraq through branches of the Company or any of its subsidiaries or its branches.

The Group, through Drake and Scull International LLC – Abu Dhabi has a 90% interest in MEP JV, a joint venture with Itinera SpA – Abu Dhabi and Ghantoot Transport General Contracting LLC under a joint arrangement agreement dated 12 November 2018. This is classified as joint venture in these interim condensed consolidated financial statements.

The Group, through Drake and Scull International for Contracting SAE has a 50% interest in a jointly controlled entity with Hassan Allam Sons (Misr Sons Development S.A.E) under a joint arrangement agreement dated 21 July 2011. This is classified as joint operation in these interim condensed consolidated financial statements.

Drake and Scull International PJSC has a 51% interest in a joint venture with Al Habtoor Specon LLC (DSI-HLS Joint Venture) under a joint arrangement agreement dated 17 April 2013. The joint venture agreements in relation to the DSI-HLS Joint Venture require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

Drake and Scull Engineering LLC has a 49% interest in a jointly controlled entity with Al Habtoor Specon LLC (HLS-DSE Joint Venture) under a joint arrangement agreement dated 1 May 2013. This is classified as a joint operation in these interim condensed consolidated financial statements.

The Group, through Passavant Energy & Environment GmbH has a 33% interest in a jointly controlled entity with Equipment Sales and Service Company, and Hinnawi Contracting Company under a joint arrangement agreement dated 09 December 2012. This is classified as a joint operation in these interim condensed consolidated financial statements.

The Group, through Passavant Energy & Environment GmbH has a 35% interest in a jointly controlled entity with Acciona Agua SA under a joint arrangement agreement dated 31 October 2013. This is classified as a joint operation in these interim condensed consolidated financial statements.

The Group, through Passavant Energy & Environment GmbH has a 99% interest in a jointly controlled entity with Acciona Agua SA under a joint arrangement agreement dated 01 June 2017. This is classified as a joint operation in these interim condensed consolidated financial statements.

The Group, through Passavant Energy & Environment GmbH has a 50% interest in a jointly controlled entity with Larsen & Toubro Limited under a joint arrangement agreement dated 12 October 2016. This is classified as a joint operation in these interim condensed consolidated financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 GOING CONCERN

The interim condensed consolidated financial statements have been prepared on a going concern basis in view of the restructuring initiatives undertaken by the Group.

The Group has earned a profit of AED 129 million during the nine-month period ended 30 September 2020 (30 September 2019: net loss of AED 1,210 million), and as of that date, its current liabilities exceeded its current assets by AED 4,062 million (31 December 2019: AED 4,183 million). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and that, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the Group be unable to continue as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any liabilities which might arise, and to reclassify non-current assets as current assets and non-current liabilities as current liabilities. However, these interim condensed consolidated financial statements, have been prepared on a going concern basis based on the developments related to restructuring.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 GOING CONCERN (continued)

The restructuring process was initiated by the Group following the reporting of significant losses in the third quarter of 2018. At that point, the Board of Directors (“Board”) of Drake & Scull International PJSC approved the formation of a Restructuring Committee (“RSC”) to develop a comprehensive restructuring plan. During the last quarter of 2018, the Company appointed financial advisors, legal advisors and consultants to carry out an Independent Business Review. During 2019, additional financial advisors and legal advisors were appointed (consultants and advisors are collectively referred to as the “Advisors”).

In early 2019, the Board, Management and Advisors worked on developing the strategic direction through the pillars of the restructuring strategy. This was adopted and approved by the Board of Directors. This was subsequently presented to the Shareholders and approved at the General Assembly Meeting held on 7 May 2019. Once approved, this became the foundation for the strategic direction upon which the future business plan was established. The Board and management continue to implement the strategic direction and the pillars of the restructuring by exiting non-operations and markets.

Moreover, the Group focused on engaging with all stakeholders including the regulators, lenders, creditors and the employees in terms of the various initiatives that the Group has been undertaking. The Group initiated discussions with the lenders. Four of the largest lenders formed an Adhoc Committee (“AHG”) so as to discuss the financial changes required to return the Group back to profitability over time. The Group also conducted an exhaustive exercise to establish the details of the trade creditors.

On the operational side, the Group focused its efforts on reducing its operating costs and addressing legacy projects that had significant cashflow or profitability issues. Moreover, the Group embarked on implementing the Board’s strategic objective as approved at the Shareholders’ meeting, to exit certain operations and markets.

Further, during 2019, the Business Plan was developed by management with the support of the Group’s Advisors and approved by the Board (the “Business Plan”) at end of third quarter of 2019. There were several meetings with the AHG and a number of individual and bank meetings. The Company and its Advisors have been discussing and negotiating the terms of potential restructuring transaction with the AHG which are yet to be finalised.

During 2020, the Board reviewed the Business Plan in light of the Covid-19 pandemic. Management with the support of Advisers produced a revised Business Plan, which was approved by the Board during the quarter ended 30 September 2020 and is now being reviewed by the AHG’s Advisers. Also, in 2020 the Board approached and requested the Financial Restructuring Committee (FRC), which was established under Federal Decree Law No (9) of 2016 to accept the Company under the resolutions set out above. A formal submission was made to the FRC during the quarter ended 31 March 2020 and was subsequently accepted during the quarter ended 30 June 2020 by the Committee to support and oversee the financial restructuring of the Company and its subsidiaries. Formal monthly meetings between the FRC, the FRC appointed independent expert and the Company began during the quarter ended 30 September 2020. Throughout 2020, there have been continuing discussion between the Company and the AHG with the aim of agreeing a restructuring plan.

2.2 BASIS OF PREPARATION

These interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2020 have been prepared in accordance with International Accounting Standard 34, ‘*Interim Financial Reporting*’ as issued by the International Accounting Standards Board (“IASB”).

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual financial statements as at 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim condensed consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is the functional and presentation currency of the Group. All values are rounded to the nearest thousands (000’) except otherwise mentioned. These interim condensed consolidated financial statements of the Group are prepared under the historical cost basis except for financial assets at fair value through profit and loss which are measured at fair value.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements incorporate the financial information of Drake and Scull International PJSC and entities controlled by it. Control is achieved where the Company has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

These interim condensed consolidated financial statements for the nine-month period ended 30 September 2020 comprises the results of the Group. The interim condensed consolidated financial statements of the subsidiaries is prepared for the same reporting period as that of the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

Subsidiaries and joint operations are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

2.4 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on interim condensed consolidated financial statements of the Group as noted below:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

3 USE OF ESTIMATES AND JUDGMENTS

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

4 RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements does not include all financial risk management information and disclosures required in the annual consolidated financial statements; these should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

There have been no changes in the risk management policies and process since the year ended 31 December 2019.

5 SEASONALITY OF OPERATIONS

The Group's financial results for nine-months are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to regional and local economies and market conditions.

6 SEGMENT REPORTING

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 "Operating Segments". IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the "Executive management" who are the Chief Operating decision-makers in order to allocate resources to the segment and to assess its performance. Executive management assesses the performance of the operating segments based on revenue.

Business segments

For management purposes, the Group is organised into business units based on their services and has three reportable business segments; Engineering (Mechanical, Electrical and Plumbing), Civil, and Others.

The Engineering segment carries out contracting work relating to the construction industry, such as mechanical, electrical, plumbing and sanitation work and contracting work relating to the construction industry, such as infrastructure, water treatment plants, district cooling plants and power plants.

The Civil works segment carried out contracting work relating to the construction industry, such as property construction, sanitation work and real estate activities.

Others segment represents a subsidiary carrying out contracting work in energy and environment industry and the corporate office which carries out strategic planning, management of all subsidiaries, treasury management, mergers and acquisition, corporate branding and investor relations. For segment information disclosure, goodwill and other intangible assets and their amortisation are disclosed under the relevant segment. Sales between segments are carried out at agreed terms. The revenue from external parties reported to the Executive management is measured in a manner consistent with that in the interim consolidated income statement.

Finance cost, finance income, other income are not allocated to individual segment as the underlying instruments are managed by the Group.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTEIRM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

6 SEGMENT REPORTING (continued)

Information about business segments (Unaudited)

All figures in AED'000

	<i>Nine-months ended 30 September 2020</i>					<i>Nine-months ended 30 September 2019</i>				
	<i>Engineering</i>	<i>Civil</i>	<i>Others</i>	<i>Inter segment elimination</i>	<i>Total</i>	<i>Engineering</i>	<i>Civil</i>	<i>Others</i>	<i>Inter segment elimination</i>	<i>Total</i>
Revenue*										
External customers	54,514	-	63,906	-	118,420	84,862	141,747	112,359	-	338,968
Segment profit/(loss)	(9,770)	-	139,598	-	129,828	(769,635)	(311,790)	(128,641)	-	(1,210,066)
Depreciation and amortisation	621	-	1,044	-	1,665	4,497	1,274	3,955	-	9,726
Capital expenditure	40	-	53	-	93	231	-	-	-	231
	<i>As at 30 September 2020</i>					<i>As at 31 December 2019 (Audited)</i>				
Segment total assets	1,575,875	-	3,918,234	(4,860,795)	633,314	1,488,544	-	4,226,792	(5,084,620)	630,716
Segment total liabilities	5,924,706	-	2,049,663	(3,630,557)	4,343,812	6,162,744	-	1,917,587	(3,605,115)	4,475,216

*The Group has recognised its entire revenue over a period of time.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

6 SEGMENT REPORTING (continued)

Reconciliation of assets:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Segment assets	633,314	630,716
Assets held for sale	1,578	1,585
	<u>634,892</u>	<u>632,301</u>

Reconciliation of liabilities:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Segment assets	4,343,812	4,475,216
Assets held for sale	144,931	144,981
	<u>4,488,743</u>	<u>4,620,197</u>

7 PROPERTY AND EQUIPMENT

The Group acquired property and equipment during the nine-month period ended 30 September 2020 amounting to AED 93 thousand (30 September 2019: AED 231 thousand). The Group disposed off property and equipment during the nine-month period ended 30 September 2020 amounting to AED 196 thousand (30 September 2019: Nil) and depreciation charged to the interim consolidated income statement amounted to AED 559 thousand (30 September 2019: AED 9,726 thousand).

8 TRADE AND OTHER RECEIVABLES

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
<i>Non-current</i>		
Trade receivables and retentions	103,575	103,777
Less: fair value adjustment	(7,934)	(7,941)
	<u>95,641</u>	<u>95,836</u>
<i>Current</i>		
Trade receivables and retentions	565,042	541,598
Prepayments and other receivables	134,477	136,211
Amount due from customers on contracts	269,172	270,651
	<u>968,691</u>	<u>948,460</u>
Less: provision for expected credit loss	(720,605)	(712,502)
	<u>248,086</u>	<u>235,958</u>

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

8 TRADE AND OTHER RECEIVABLES (continued)

Movement in provision for expected credit loss:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
At 1 January	712,502	2,970,518
Provision for expected credit loss	7,229	57,918
Reversal of provision for expected credit loss	-	(1,517,778)
Related to disposal of subsidiaries	-	(798,156)
Exchange rate difference	874	-
	<u>720,605</u>	<u>712,502</u>
At 30 September 2020 / 31 December 2019	<u>720,605</u>	<u>712,502</u>

9 RELATED PARTY TRANSACTIONS

Related parties include shareholders, key management personnel, joint venture partners, directors and businesses which are controlled directly or indirectly by the major shareholders or directors or over which they exercise significant management influence (hereinafter referred as “affiliates”).

In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group’s management or its Board of Directors.

Balances with related parties included in the interim condensed consolidated financial statements are as follows:

Due from related parties:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Joint arrangements	2,370	405
Affiliates	13,568	42,860
	<u>15,938</u>	<u>43,265</u>

Due to related parties:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Joint arrangements	19,572	15,876
Affiliates	44,607	45,789
Related to assets held as discontinued operations	(27,280)	(27,289)
	<u>36,899</u>	<u>34,376</u>

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

9 RELATED PARTY TRANSACTIONS (continued)

Amount due from affiliates include AED 13,568 thousand relating to consideration received on sale of an investment in associate in earlier years (year ended 31 December 2019: AED 39,727 thousand).

No expected credit loss on related party transactions during the period (30 September 2019: Nil) which have an impact on interim consolidated income statement.

The remuneration of key members of the management are as follows:

	<i>Nine-month period ended 30 September (Unaudited)</i>	
	<i>2020 AED'000</i>	<i>2019 AED'000</i>
Short term benefits	842	1,132
Employees' end of service benefits	32	36
	<u>874</u>	<u>1,168</u>

10 CASH AND BANK BALANCES

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Cash on hand	2,281	3,867
Cash at bank	64,185	42,798
Term deposits	31,494	33,124
Cash and bank balances	<u>97,960</u>	<u>79,789</u>

Term deposits carry an average interest rate of 1% to 3% (year ended 31 December 2019: 1% to 3%) per annum.

For the purpose of interim consolidated statement of cash flows, cash and cash equivalents comprise the following:

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>30 September 2019 AED'000 (Unaudited)</i>
Cash and bank balances	97,960	128,127
Less: term deposits under lien	(31,494)	(81,080)
Less: bank overdrafts	(120,118)	(458,683)
Less: cash and cash equivalent related to discontinued operations	(23,285)	(74,742)
Cash and cash equivalents	<u>(76,937)</u>	<u>(486,378)</u>

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

11 BANK BORROWINGS

The Group has obtained bank borrowings (including bank overdrafts) from several commercial banks, mainly to fund working capital and project requirements.

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Current		
Term loan	1,037,491	1,037,990
Trust receipts and other borrowings	749,698	632,917
Bank overdrafts	120,118	117,436
	<u>1,907,307</u>	<u>1,788,343</u>

The carrying amount of the Group's borrowings is primarily denominated in AED, USD or other currencies pegged to USD.

Interest rates on the term loans were at variable rates and ranging between 2% to 8% (2019: 2% to 8%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

The nature of securities provided in respect of certain bank borrowings by the Group, are set out below:

- Lien on motor vehicles and equipment purchased and on certain receivables;
- Mortgage over certain property and equipment;
- Pledge of assets acquired through utilisation of credit facilities; and
- Term deposits of AED 31,494 thousand (year ended 31 December 2019: AED 33,124 thousand).

The carrying amount of current borrowings approximates their fair value at the reporting date. Term loans are at market linked variable interest rates and therefore the carrying amounts of term loans approximate their fair value at the reporting date.

The Group was in breach of the financial covenants in relation to the syndicated Sukuk facility and certain other borrowing facilities. These breaches have rendered the loans to be technically payable on demand and consequently these have been classified as current liabilities.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

12 a GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Nine-month period ended 30 September (Unaudited)</i>	
	<i>2020 AED'000</i>	<i>2019 AED'000</i>
Staff costs	19,257	32,707
Business development, legal and professional fees	11,800	16,129
Provision for expected credit loss on trade and other receivables (Note 8)	7,229	684,528
Write off of trade and other receivables	5,357	-
Restructuring cost	4,873	6,072
Bank charges	1,432	19
Depreciation on right-of-use assets	1,069	-
Utilities	1,016	1,159
Expenses related to lease of short term and low value assets	910	3,638
Repair and maintenance	780	1,351
Employees' end of service benefits	678	626
Depreciation on property and equipment (Note 7)	559	5,813
Other expenses	10,896	68,469
	<u>65,856</u>	<u>820,511</u>

12 b BOND ENCASHMENTS

During the current period, the Group made bond encashment provisions amounting to AED 66,318 thousand (2019: Nil) relating to the bonds guaranteed by Drake and Scull International PJSC for certain projects relating to entities disposed of in 2019.

12 c FINANCE COSTS

	<i>Nine-month period ended 30 September (Unaudited)</i>	
	<i>2020 AED'000</i>	<i>2019 AED'000</i>
Finance costs	78,060	67,012
<i>Less:</i>		
Finance costs charged to cost of sales	(793)	(2,763)
	<u>77,267</u>	<u>64,249</u>

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

13 INCOME TAX EXPENSE AND ZAKAT

The major components of income tax expense are:

	<i>Nine-month period ended 30 September (Unaudited)</i>	
	<i>2020 AED'000</i>	<i>2019 AED'000</i>
<i>Current income tax expense:</i>		
Current income tax and Zakat charge	(800)	(4,788)
<i>Deferred income tax expense</i>		
Relating to origination and reversal of temporary differences	709	70
	(91)	(4,718)

14 EARNINGS PER SHARE

(a) *Basic*

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Group by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased and held as treasury shares.

	<i>Nine-month period ended 30 September (Unaudited)</i>	
	<i>2020</i>	<i>2019</i>
Profit / (loss) (AED'000)		
Profit/(Loss) for the purposes of basic earnings per share being net profit/(loss) attributable to owners of the Parent	129,828	(1,065,425)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,070,987,748	1,070,987,748
Basic and diluted profit / (loss) per share (AED)	0.12	(0.99)

(b) *Diluted*

The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

15 GUARANTEES

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Performance bonds *	673,783	765,585
Letter of guarantees *	578,207	767,899
	<u>1,251,990</u>	<u>1,533,484</u>

* The Group has also provided corporate guarantees on behalf of subsidiaries disposed off and has provision against these guarantees which are likely to be encashed. Refer Note 18.

The various bank guarantees disclosed above were issued by the Group's bankers in the ordinary course of business.

16 COMMITMENTS AND CONTINGENCIES

Commitments

	<i>30 September 2020 AED'000 (Unaudited)</i>	<i>31 December 2019 AED'000 (Audited)</i>
Letters of credit for purchase of materials and operating equipment	14,900	21,827

Legal contingencies

During 2018, the Group informed DFM that there were material financial violations by the previous management of the Group which are under investigation by the designated authorities in the UAE. The Company is engaged in civil and criminal cases against the ex-major shareholder, former CEO and Vice Chairman. Further, the Company is following up the extradition of the former CEO and Vice Chairman to get him extradited to the UAE following his arrest in Jordan. Criminal complaints were filed against family members of the former CEO and Vice Chairman and other former executive managers with the Abu Dhabi Public Funds Prosecutor's office, which is investigating the matter. The Abu Dhabi Public Funds Prosecutor has accused the former CEO and Vice Chairman for misappropriation, fraud, embezzlement, intentional damage to public funds, profiteering others and forgery.

Further, due to severe liquidity issues, the Group is facing multiple civil cases from ex-employees mainly related to non-payment of their dues and similarly, the Group is also facing many civil legal cases with suppliers and subcontractors for non-payment of their dues.

Management has assessed and concluded that in respect of above, sufficient provisions are considered in these interim condensed consolidated financial statements.

17 FAIR VALUES

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, trade and other receivables, other financial assets and due from related parties. Financial liabilities consist of bank borrowings, lease liabilities, trade and other payables and due to related parties.

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

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

17 FAIR VALUES (continued)

The following methods and assumptions were used to estimate the fair values:

- Bank balances, trade receivables, other financial assets, due from related parties, bank borrowings, trade and other payables, due to related parties and income tax payable approximate their carrying amounts, largely due to the short-term maturities of these instruments.
- Long term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken to account for the expected losses of these receivables. As at 30 September 2020, the carrying amounts of such receivables, net of provisions, are not materially different from their fair values.
- Fair value of non-current receivable, lease liabilities, bank borrowings and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debts on similar items, credit risk and remaining maturities.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table presents the Group's assets and liabilities that are measured at fair value at 30 September 2020:

	<i>Level 1</i> <i>AED'000</i> <i>Unaudited</i>	<i>Level 2</i> <i>AED'000</i> <i>Unaudited</i>	<i>Level 3</i> <i>AED'000</i> <i>Unaudited</i>	<i>Total</i> <i>AED'000</i> <i>Unaudited</i>
Assets				
Financial assets at fair value through profit or loss	-	1,058	-	1,058
Investment property	-	-	95,766	95,766
Total assets	<u>-</u>	<u>1,058</u>	<u>95,766</u>	<u>96,824</u>
Liability				
Lease liabilities	-	-	6,759	6,759
Total liability	<u>-</u>	<u>-</u>	<u>6,759</u>	<u>6,759</u>

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

17 FAIR VALUES (continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2019:

	<i>Level 1</i> <i>AED'000</i> <i>Audited</i>	<i>Level 2</i> <i>AED'000</i> <i>Audited</i>	<i>Level 3</i> <i>AED'000</i> <i>Audited</i>	<i>Total</i> <i>AED'000</i> <i>Audited</i>
Assets				
Financial assets at fair value through profit or loss	-	1,058	-	1,058
Investment property	-	-	100,000	100,000
Total assets	<u>-</u>	<u>1,058</u>	<u>100,000</u>	<u>101,058</u>
Liability				
Lease liabilities	-	-	7,207	7,207
Total liability	<u>-</u>	<u>-</u>	<u>7,207</u>	<u>7,207</u>

There were no transfers between Levels 1, 2 and 3 during the period.

(a) *Valuation techniques used to derive Level 2 fair values*

(i) Investments carried at fair value through profit or loss

Level 2 investments carried at fair value through profit or loss comprise of investments in funds for which fair value is estimated using net assets value approach. Fair values of investments in funds are determined using the net assets value provided by the fund managers based on the observable market prices of the assets managed by the fund.

At 31 December 2019 and 30 September 2020, the fair values of all other financial assets and liabilities, which are measured at amortised cost approximate their carrying values.

(b) *Group's valuation processes*

Changes in Level 2 and 3 fair values are analysed at each reporting date during quarterly valuation discussions. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

There were no changes in the valuation techniques during the period.

18 PROVISION FOR BANK LIABILITIES OF SUBSIDIARIES

	<i>30 September</i> <i>2020</i> <i>AED'000</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2019</i> <i>AED'000</i> <i>(Audited)</i>
Provision for bank liabilities relating to disposed off subsidiaries *	945,106	560,800
Provision for bond encashment relating to disposed off subsidiaries	195,674	48,351
Provision for bank liabilities of discontinued operations *	80,000	80,000
Provision for bond encashment related to loss of control of subsidiaries	-	34,228
	<u>1,220,780</u>	<u>723,379</u>

These represent provisions made against corporate guarantees and bonds reflected in the books of various entities which are guaranteed by the Group.

* Interest rates on these loans were at a variable rate between 2% to 8% (year ended 31 December 2019: 2% to 8%) per annum.

Drake and Scull International PJSC & its subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Unaudited)

19 PROVISION FOR LOSS OF CONTROL OVER SUBSIDIARIES

Movement in provision for loss of control over subsidiaries during the period is as follows:

	<i>30 September 2020</i> <i>AED'000</i> <i>(Unaudited)</i>		
	<i>DSI WLL, Qatar</i>	<i>DSWE, India</i>	<i>Total</i>
Balance at 1 January 2020	789,069	24,338	813,407
Fair value loss	447	-	447
Disposal*	(789,516)	-	(789,516)
Others	-	956	956
	<u>-</u>	<u>25,294</u>	<u>25,294</u>
Balance at 30 September 2020	<u>-</u>	<u>25,294</u>	<u>25,294</u>
	<i>31 December 2019</i> <i>AED'000</i> <i>(Audited)</i>		
	<i>DSI WLL, Qatar</i>	<i>DSWE, India</i>	<i>Total</i>
Balance at 1 January 2019	709,405	-	709,405
Transfer during the year	-	5,904	5,904
Additional provision during the year	96,228	18,434	114,662
Others	(16,564)	-	(16,564)
	<u>789,069</u>	<u>24,338</u>	<u>813,407</u>

The Group entered into a Sale and Purchase Agreement to dispose off its entire stake in Drake & Scull International (Qatar) WLL.

In accordance with the terms of the agreement, the date of actual transfer of control over the entities' operating and financial activities was 30 June 2020. Further as per SPA, the agreement is irrevocable by either parties and is legally binding and effective in the local jurisdictions in which the subject entity is legally domiciled.

Effect of disposal of subsidiary on the interim condensed consolidated financial statement of the Group as of 30 June 2020:

	<i>AED'000</i> <i>(Unaudited)</i>
Provision for loss of control over subsidiaries as at 31 December 2019	789,069
Fair value loss (exchange difference)	447
Provision for loss of control over subsidiary as at the date of disposal	<u>789,516</u>
Provision for additional cost relating to disposal	(5,000)
Provision for bond encashed and bank liabilities guaranteed by the Parent	(430,808)
Net gain on disposal of subsidiary *	<u><u>353,708</u></u>

* Includes cumulative translation difference of AED 3,355 thousand.

20 COVID-19 ASSESSEMENT

Economic activities have been impacted on account of the spread of the COVID-19 pandemic in the region. The Group's cash flows may be impacted, due to delays in collection and will require managing short- and medium-term liquidity requirements. The Group's management is closely monitoring the impact of the developments on the Group's operations and liquidity and has started to put in place required contingency measures. Management considers that the situation is fast evolving and the effect of the outbreak is by nature subject to significant levels of uncertainty, which cannot be estimated with precision.