

KALYAN JEWELLERS FZE
Dubai - United Arab Emirates

Report and separate financial statements
for the year ended 31 March 2018

KALYAN JEWELLERS FZE

**Report and separate financial statements
for the year ended 31 March 2018**

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INDEPENDENT AUDITOR'S REPORT

The Shareholder
Kalyan Jewellers FZE
Dubai
United Arab Emirates

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of **Kalyan Jewellers FZE** (the "Establishment"), which comprise the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Establishment as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Establishment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Establishment's separate 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.

Other Matter

In accordance with International Financial Reporting Standards (IFRS) 10, *Consolidated Financial Statements*, the Establishment has prepared and issued on 31 July 2018, the consolidated financial statements in compliance with International Financial Reporting Standards (IFRSs).

Responsibilities of Management for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards, and their preparation in compliance with the applicable provisions of the articles of association of the Establishment and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Cont'd...

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Management for the Separate Financial Statements (continued)

Our objectives are to obtain reasonable assurance about whether the separate 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 ISA 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 separate financial statements.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

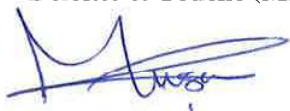
As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 Establishment's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Establishment to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Establishment has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the period of the provisions of the Dubai Airport Free Zone Implementing Regulations No.1/98 issued pursuant to Law No. 2 of 1996, as amended, which might have materially affected the financial position of the Establishment or the results of its financial performance.

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
27 August 2018
Dubai
United Arab Emirates



Kalyan Jewellers FZE

Separate statement of financial position as at 31 March 2018

	Notes	2018 AED	2017 AED
ASSETS			
Non-current assets			
Investment in subsidiaries	5	2,522,670	147,000
Additional contribution to a subsidiary	5	235,000,000	235,000,000
Loan to a related party	8(c)	18,555,401	29,335,876
Total non-current assets		256,078,071	264,482,876
Current assets			
Loan to related parties	8(c)	415,865,024	258,073,535
Due from related parties	8(a)	37,847,421	1,682,083
Other financial assets	9	37,642,153	12,910,278
Other receivables	7	152,970	1,588,900
Cash and cash equivalents	6	614,656	2,960,734
Total current assets		492,122,224	277,215,530
Total assets		748,200,295	541,698,406
SHAREHOLDER'S FUNDS AND LIABILITIES			
Shareholder's equity			
Share capital	10	150,000,000	150,000,000
Retained earnings		527,768	1,037,940
Loan from a shareholder	11	192,989,164	98,839,164
Total shareholder's equity		343,516,932	249,877,104
Non-current liabilities			
Bank borrowings	14	-	6,666,667
Provision for employees' end-of-service indemnity	12	47,710	37,541
Total non-current liabilities		47,710	6,704,208
Current liabilities			
Due to related parties	8(b)	1,290,000	4,382,130
Other liabilities	13	5,066,264	2,799,634
Bank borrowings	14	398,279,389	277,935,330
Total current liabilities		404,635,653	285,117,094
Total liabilities		404,683,363	291,821,302
Total shareholder's equity and liabilities		748,200,295	541,698,406

N. R. Venkatarayan



The accompanying notes form an integral part of these separate financial statements

Kalyan Jewellers FZE

Separate statement of profit or loss and other comprehensive income for the year ended 31 March 2018

	Notes	2018 AED	2017 AED
Finance income	8,15	17,728,169	17,897,168
Management fee	8	840,000	840,000
		<u>18,568,169</u>	<u>18,737,168</u>
General and administrative expenses	16	(852,689)	(1,471,050)
Finance costs	17	(17,912,118)	(17,142,982)
Foreign exchange loss	18	(313,534)	(73,598)
		<u>(510,172)</u>	<u>49,538</u>
Net (loss)/profit for the year		(510,172)	49,538
Other comprehensive income		-	-
		<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the year		(510,172)	49,538

The accompanying notes form an integral part of these separate financial statements

Kalyan Jewellers FZE**Separate statement of changes in equity
for the year ended 31 March 2018**

	Share capital AED	Retained earnings AED	Loan from a shareholder AED	Total AED
Balance at 1 April 2016	150,000,000	988,402	-	150,988,402
Total comprehensive income for the year	-	49,538	-	49,538
Loan taken from a shareholder	-	-	98,839,164	98,839,164
Balance at 31 March 2017	150,000,000	1,037,940	98,839,164	249,877,104
Total comprehensive loss for the year	-	(510,172)	-	(510,172)
Loan taken from a shareholder	-	-	94,150,000	94,150,000
Balance at 31 March 2018	150,000,000	527,768	192,989,164	343,516,932

The accompanying notes form an integral part of these separate financial statements

Kalyan Jewellers FZE

Separate statement of cash flows for the year ended 31 March 2018

	2018 AED	2017 AED
Cash flows from operating activities		
(Loss)/profit for the year	(510,172)	49,538
<i>Adjustments for:</i>		
Finance income	(17,728,169)	(17,897,168)
Finance costs	17,912,118	17,142,982
Charge for employees' end-of-service indemnity	10,169	10,471
Operating cash flows before changes in operating assets and liabilities	(316,054)	(694,177)
Decrease/(increase) in other receivables	1,435,930	(977,075)
Increase in other financial assets	(24,731,875)	(1,699,920)
Increase in other liabilities	2,266,630	1,308,293
(Decrease)/increase in due to related parties	(3,288,285)	3,702,130
Cash (used in)/generated from operating activities	(24,633,654)	1,639,251
Interest received	17,824,743	16,215,085
Interest paid	(17,715,963)	(11,184,810)
Net cash (used in)/generated from operating activities	(24,524,874)	6,669,526
Cash flows from investing activities		
Payment for investment in subsidiaries	(2,375,670)	-
Net cash used in investing activities	(2,375,670)	-
Cash flows from financing activities		
Decrease in loans to a related party	(52,861,014)	(49,707,988)
Decrease in due from related parties	(36,261,912)	25,936,437
Proceeds from bank borrowings	157,039,050	634,782
Repayments of bank borrowings	(43,361,658)	-
Loan received from a related party	-	19,417,288
Net cash generated from/(used in) financing activities	24,554,466	(3,719,481)
Net (decrease)/increase in cash and cash equivalents	(2,346,078)	2,950,045
Cash and cash equivalent at the beginning of the year	2,960,734	10,689
Cash and cash equivalents at end of the year (note 6)	614,656	2,960,734

The accompanying notes form an integral part of these separate financial statements

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018

1. General information

Kalyan Jewellers FZE (the “Establishment”) is a free zone establishment with limited liability registered on 15 July 2013 with the Dubai Airport Free Zone Authority, Government of Dubai in accordance with the implementing regulations No.1 of 1998 issued pursuant to Law No. 2 of 1996, as amended.

The address of the registered office of the Establishment is East Side 5A, Seventh Floor, Dubai Airport Free Zone, Dubai, United Arab Emirates.

The principal activities of the Establishment include the import & export of gold, diamonds & precious stones & metals.

The Establishment is a wholly owned subsidiary of Kalyan Jewellers India Ltd. (the “Parent Company”).

These financial statements represent the separate financial statements of the Establishment. The Establishment also prepares consolidated financial statements.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 *New and revised IFRS applied with no material effect on the separate financial statements*

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 April 2017, have been adopted in these separate financial statements.

Amendments to IAS 7 Disclosure Initiative

The Establishment has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of separate financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Establishment’s liabilities arising from financing activities consist of borrowings (note 14). A reconciliation between the opening and closing balances of these items is provided in note 14. Consistent with the transition provisions of the amendments, the Establishment has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 14, the application of these amendments has had no impact on the Establishment’s separate financial statements.

Annual Improvements to IFRS Standards 2014 - 2016 Cycle - Amendments to IFRS 12

The Establishment has applied the amendments to IFRS 12 included in the Annual Improvements to IFRS 2014 - 2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Establishment.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Establishment that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments has had no effect on the Establishment’s separate financial statements as none of the Establishment’s interests in these entities are classified, or included in a disposal Establishment that is classified, as held for sale.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .	
The standard contains requirements in the following areas: • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014) (continued)	1 January 2018
• Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. • Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • Derecognition: The financial requirements for the derecognition of financial assets and financial liabilities are carried forward from IAS 39.	1 January 2018
Amendments to IFRS 9 <i>Financial Instruments</i> : Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2018
<u>Impact assessment of IFRS 9 <i>Financial Instruments</i></u>	
The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Establishment's separate financial statements in respect of financial assets and financial liabilities. Management is in the process of assessing the impact of this standard on the separate financial statements.	
<u>IFRS 15 <i>Revenue from Contracts with Customers</i></u>	1 January 2018
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and the related interpretations when it becomes effective.	
The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS

*Effective for
annual periods
beginning on or after*

IFRS 15 Revenue from Contracts with Customers (continued)

1 January 2018

Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Impact assessment of IFRS 15 Revenue from Contracts with Customers

The application of IFRS 15 may have significant impact on amounts reported and disclosures made in the Establishment's separate financial statements in respect of revenue from contracts with customers. Management is in the process of assessing the impact of this standard on the separate financial statements.

IFRS 16 Leases

1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Impact assessment of IFRS 16 Leases

The application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Establishment's separate financial statements in respect of leases. Management is in the process of assessing the impact of this standard on the separate financial statements.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied

Management anticipates that these new standards, interpretations and amendments will be adopted in the Establishment's separate financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16 as highlighted in previous paragraphs, may have no material impact on the separate financial statements of the Establishment in the year of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Establishment's separate financial statements for the annual period beginning 1 April 2018 and that IFRS 16 will be adopted in the Establishment's separate financial statements for the annual period beginning 1 April 2019.

All other IFRSs not yet adopted are not expected to be material.

3. Significant accounting policies

3.1 Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3.2 Basis of preparation

The separate financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

3.3 Investment in subsidiary

Subsidiary undertakings are those entities which are controlled by the Establishment. Control is achieved where the Establishment has:

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

The Establishment re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

3. Significant accounting policies (continued)

3.3 Investment in subsidiary (continued)

Investment in subsidiary is accounted for in these separate financial statements using the “cost method” in accordance with International Accounting Standard (IAS) 27: *Separate Financial Statements*. The Establishment also prepares the consolidated financial statements.

Where an indication of impairment exists, the recoverable amount of the investment is assessed. Where the carrying amount is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and the difference is charged to the separate statement of profit or loss and comprehensive income. On disposal of an investment the differences between the net disposal proceeds and the carrying amount is charged or credited to separate statement of profit or loss and comprehensive income.

3.4 Revenue recognition

Rendering of services

Revenue from services is recognised when the service has been rendered.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Establishment and the amount can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.5 Foreign currencies

The separate financial statements of the Establishment are presented in the currency of the primary economic environment in which the Establishment operates (its functional currency). For the purpose of these separate financial statements, the financial performance and financial position of the Establishment are expressed in Arab Emirates Dirhams which is the functional currency of the Establishment and the presentation currency for these separate financial statements.

In preparing the separate financial statements of the Establishment, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the separate statement of profit or loss and other comprehensive income.

3.6 Provisions

Provisions are recognised when the Establishment has a present obligation (legal or constructive) as a result of a past event, it is probable that the Establishment 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 reporting date, taking into account the risks and uncertainties surrounding the obligation.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

3. Significant accounting policies (continued)

3.6 Provisions (continued)

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.

3.7 Leasing

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

Assets held under finance leases are recognised as assets of the Establishment at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the separate statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting year.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. When calculating the lease term, renewal periods are also considered if provided for by the agreement and the amount due is known.

3.8 Employee benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave passage as a result of services rendered by eligible employees up to the end of the year.

Provision is made for the full amount of end of service benefits due to employees in accordance with the UAE Labour Law for their period of service up to the end of the year.

3.9 Financial instruments

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

3.9.1 Financial assets

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 separate statement of profit or loss and other comprehensive income.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Establishment manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Establishment's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and *IAS 39 Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the separate statement of income. The net gain or loss recognised in the separate statement of income incorporates any dividend or interest earned on the financial asset and is included in the separate statement of profit or loss.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Held to maturity

Investments which have fixed or determinable payments with fixed maturities which the Establishment has the intention and ability to hold to maturity, are classified as held to maturity investments. Held to maturity investments are carried at amortised cost, using effective interest rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Establishment's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (FVTPL).

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in the separate statement of income. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the equity is reclassified to the separate statement of income.

Dividends on AFS equity instruments are recognised in the separate statement of income when the Establishment's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in the separate statement of income are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

**Notes to the separate financial statements
for the year ended 31 March 2018 (continued)**

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including bank balances and cash, loan to a related party, other receivables, other financial assets and due from related parties) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Establishment's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the separate statement of profit or loss and other comprehensive income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the separate statement of income in the period.

**Notes to the separate financial statements
for the year ended 31 March 2018 (continued)**

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

3.9.1 Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in the income statement are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in the equity. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the statement of income.

3.9.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by Establishment are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Establishment are recognised at the proceeds received, net of direct issue costs.

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.2 Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including an interest bearing loan from a related party, bank borrowings, other liabilities, and other balances due to related parties) are subsequently measured at amortised cost using the effective interest method.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Establishment derecognises financial liabilities when, and only when, the Establishment's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the separate statement of income.

3.10 Contingent liabilities

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

3.11 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

**Notes to the separate financial statements
for the year ended 31 March 2018 (continued)**

4. Critical accounting judgements and key sources of estimation uncertainty

While applying the accounting policies as stated in note 3, management of the Establishment 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. Revisions 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.

4.1 Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Establishment's accounting policies and that have the most significant effect on the amounts recognised in the separate financial statements.

Loan from shareholder

Loan from a shareholder represents additional funds provided by the shareholder and is classified as equity. In determining whether the funds/loan from a shareholder is a financial liability or an equity instrument, management has considered the detailed criteria set out in IAS 32 *Financial Instruments: Presentation and disclosure*. Further, management also considered the fact that the funds/loan is interest free, there are no contracted obligations to repay the amount and repayment is at the discretion of the issuer. Management is satisfied that it is appropriately classified as equity in the separate statement of financial position (note 11).

4.2 Key sources of estimation uncertainty

The Establishment does not have any key assumptions concerning the future, and other key source of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. Investment in subsidiaries

The Establishment has invested in equity shares of following companies as at 31 March:

<u>Name of the subsidiary</u>	<u>No of shares</u>	<u>Legal ownership</u>	<u>Controlling ownership</u>	<u>Amount AED (2018)</u>	<u>Amount AED (2017)</u>	<u>Principal activities</u>
Kalyan Jewellers L.L.C., U.A.E	147	49%	100%	147,000	147,000	Trading in jewellery
Kalyan Jewellers L.L.C., Oman	175,000	70%	100%	2,375,670	-	Trading in jewellery
				<u>2,522,670</u>	<u>147,000</u>	

The principal activities of the subsidiaries include trading of jewellery, watches and perfumes.

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

5. Investment in subsidiaries (continued)

The share capital of Kalyan Jewellers L.L.C., Oman is Omani Rial 1 (AED 9.50) divided into 250,000 shares of Omani Rial 1 each (AED 9.50). PNC Menon, the local shareholder holds 75,000 shares for the beneficial interest of the Establishment.

During the prior year, the Establishment has converted amounts "due from a related party" amounting to AED 25,936,437 [Note 8 (a)] and "other loans to a related party" amounting to AED 209,063,563 [Note 8(c)] to AED 235,000,000 million investments in its subsidiary to meet their additional capital requirements. There has been no additional contribution made in the current year.

6. Cash and cash equivalents

	2018 AED	2017 AED
Bank balance - current account	614,656	2,960,734

7. Other receivables

	2018 AED	2017 AED
Interest receivable on margin deposits (notes 9 & 15)	1,530	1,562,460
Prepayments	151,440	26,440
	152,970	1,588,900

- (a) Interest receivable on margin deposits represent the equivalent value of Nil kilograms (2017: 10.6 kilograms) of gold bullion receivable from bullion banks on margin deposits as at the reporting date (note 9), and has been valued at the bullion rate as on close of business on reporting date.

8. Related party transactions

The Establishment enters into transactions with other companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common control and key management personnel.

The management decides on the terms and conditions of transactions and of services received/rendered from/to related parties as well as other charges.

Transactions with such related parties are made on substantially the same terms as those prevailing for comparable transactions with external customers and parties.

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

8. Related party transactions (continued)

At the reporting date, balances with related parties were as follows:

	2018 AED	2017 AED
(a) Due from related parties		
<i>Subsidiary</i>		
Kalyan Jewellers L.L.C., U.A.E.	18,555,401	1,682,083
Kalyan Jewellers L.L.C., Oman	8,712,990	-
<i>Entities under common control</i>		
Kalyan Jewellers W.L.L., Qatar	5,598,570	-
Kalyan Jewelers for Golden Jewelries W.L.L., Kuwait	4,980,460	-
	<u>37,847,421</u>	<u>1,682,083</u>
	2018 AED	2017 AED
(b) Due to related parties		
<i>Parent Company</i>		
Recharge of key management compensation from Kalyan Jewellers India Ltd.	1,290,000	895,000
<i>Entities under common control</i>		
Kalyan Jewellers W.L.L., Qatar	-	3,487,130
	<u>1,290,000</u>	<u>4,382,130</u>
Amounts due to related parties are non-interest bearing and are repayable on demand.		
	2018 AED	2017 AED
(c) Loan to related parties		
<i>Subsidiaries</i>		
Kalyan Jewellers L.L.C., UAE		
- Gold loan (note 14)	276,911,514	258,073,535
- Other loans	120,769,860	29,335,876
Kalyan Jewellers L.L.C., Oman		
- Gold loan (note 14)	36,739,051	-
Total loan	<u>434,420,425</u>	<u>287,409,411</u>
Less: Other loan (non-current portion)	<u>(18,555,401)</u>	<u>(29,335,876)</u>
Current portion of loan	<u>415,865,024</u>	<u>258,073,535</u>

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

8. Related party transactions (continued)

(c) Loan to related parties (continued)

The other loan to a related party carries an interest rate of 6% per annum [2017: 6% per annum]. As at 31 March 2018, an amount of AED 18,555,401 (2017: AED 29,335,876) is repayable within a period of two to five years and is classified as a non-current asset.

During the prior year, an amount of AED 209,063,563 has been converted into an additional contribution to a subsidiary in the nature of equity (note 5), as resolved by the board resolution dated 17 March 2017. There has been no additional contribution in the current year.

(d) During the year, the Establishment entered into the following transactions with related parties:

	2018 AED	2017 AED
<i>Parent company/subsidiary</i>		
<i>Subsidiary</i>		
Management fee income	840,000	840,000
Interest income on loan to a related party (note 15)	3,241,667	5,571,026
Interest income on gold loan to a related party (note 15)	13,007,241	10,637,823
Loan arrangement and letter of credit income (note 15)	1,464,361	1,682,083
	<u> </u>	<u> </u>
<i>Parent company</i>		
Interest expense on loan from a related party (note 17)	-	3,312,585
	<u> </u>	<u> </u>

Key management remuneration:

	2018 AED	2017 AED
Salaries and other short term benefits	300,000	300,000
Long-term benefits	10,169	10,471
	<u> </u>	<u> </u>

9. Other financial assets

	2018 AED	2017 AED
Margin deposits	37,642,153	12,910,278
	<u> </u>	<u> </u>
	37,642,153	12,910,278
	<u> </u>	<u> </u>

Margin deposits represent deposits with a bullion bank against the gold loan provided to the Establishment and earn an interest in the form of gold bullion (notes 7 & 15).

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Notes to the separate financial statements for the year ended 31 March 2018 (continued)

10. Share capital

The authorised, issued and fully paid up shares of the Establishment are as follows:

	Percent of ownership %	Number of Shares	Amount AED
31 March 2018			
Kalyan Jewellers India Ltd.	100	150	150,000,000
31 March 2017			
Kalyan Jewellers India Ltd.	100	150	150,000,000

11. Loan from a shareholder

The loan from a shareholder as at 31 March 2018 represents an amount of AED 193.0 million (2017: AED 98.8 million), which is loan from a principal shareholder (Kalyan Jewellers India Ltd.) in the nature of equity. This amount is interest free, has no fixed repayment term and repayment is at the discretion of the issuer (note 4.1).

12. Provision for employees' end of service indemnity

	2018 AED	2017 AED
As at beginning of the year	37,541	27,070
Charge for the year	10,169	10,471
As at end of the year	47,710	37,541

13. Other liabilities

	2018 AED	2017 AED
Interest payable on gold loans	1,159,370	963,215
Other liabilities (note 13(a))	3,906,894	1,836,419
	5,066,264	2,799,634

- (a) Other liabilities pertain to amounts owed to third parties in the nature of finance costs. These are recovered from a related party.

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

14. Bank borrowings

	2018 AED	2017 AED
Gold loans [note 8 (c) & 14 (a)]	313,650,365	258,073,535
Bank overdraft [note 14 (b)]	62,369,145	6,850,033
Term loan [note 14 (c)]	22,259,879	19,678,429
	<u>398,279,389</u>	<u>284,601,997</u>
Less: gold loans (non-current)	-	(6,666,667)
	<u>398,279,389</u>	<u>277,935,330</u>

- a) The Establishment has obtained gold loan facilities with a total limit of AED 313.9 million (2017: AED 264.0 million) of which AED 313.7 million (2017: AED 258.1 million) was utilised as at the end of the reporting period. The interest rate on the gold loans availed, ranges from 2% to 2.5% (2017: from 2% to 2.5%) per annum and the tenure of gold loan is 12 months (2017: between 45 days to 12 months) and the loans are guaranteed by standby letters of credit issued by the Bank of the Parent Company.

The Establishment has transferred gold loans availed from bullion banks to its subsidiary, Kalyan Jewellers L.L.C. UAE and Kalyan Jewellers L.L.C. Oman, on similar terms and conditions [note 8 (c)]. At 31 March 2018, gold quantity of 2,015 Kgs (2017: 1,767 Kgs) has been obtained as a loan from bullion banks on an unfixed basis and a gold quantity of 2,015 Kgs (2017: 1,767 Kgs) has been given to related parties on an unfixed basis and has been revalued on the reporting date at the spot rate of AED 156 per gram (2017: AED 146 per gram).

Gold loans availed during the year are subject to certain bank covenants and these covenants have been met as at the reporting date.

- b) The Establishment has availed overdraft facilities against postdated cheques to finance the upfront security cash margin to be held against drawdowns under Unfixed Gold Facilities.
- c) The Establishment has availed point of sale loans for funding inventories in its subsidiary's existing/new outlets.

The borrowings are subject to certain securities which include the personal guarantees of certain shareholders, corporate guarantees of the Parent Company and subsidiaries, cash margin covering the unfixed gold facility, assignment of jewellery block insurance policy covering the Establishment and its subsidiaries; assignment of point of sales collections and pledge over bank account in which collections to be deposited; letters of credit, settlement cheques, hypothecation over stocks and receivables.

Reconciliation of liabilities arising from financing activities:

	1 April 2017 AED	Financing cash flows Proceeds AED	Repayments AED	Other changes AED	31 March 2018 AED
Bank borrowings	284,601,997	157,039,050	(43,361,658)	-	398,279,389

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

15. Finance income

	2018 AED	2017 AED
Interest income on loans to a related party [note 8 (d)]	3,241,667	5,571,026
Interest income on gold loans to a related party (net) [note 8 (d)]	13,007,241	10,637,823
Interest income on margin deposits	14,900	6,236
Loan arrangement and letter of credit income [note 8 (d)]	1,464,361	1,682,083
	<u>17,728,169</u>	<u>17,897,168</u>

16. General and administrative expenses

	2018 AED	2017 AED
Salaries and benefits	310,170	342,377
Professional fees	200,000	279,850
Bank charges	176,201	680,590
Rent expense	121,071	122,121
Registration and license	15,000	15,020
Others	30,247	31,092
	<u>852,689</u>	<u>1,471,050</u>

17. Finance costs

	2018 AED	2017 AED
Interest expense on loan from a related party [note 8(d)]	-	3,312,585
Interest expense on gold loans	13,007,241	10,637,823
Interest expenses on term loan and bank overdrafts	3,440,516	1,510,491
Loan arrangement and letter of credit fees	1,464,361	1,682,083
	<u>17,912,118</u>	<u>17,142,982</u>

18. Foreign exchange loss

	2018 AED	2017 AED
Foreign exchange loss	<u>313,534</u>	<u>73,598</u>

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

19. Commitments

Operating lease commitments

As lessee

The Establishment leases its office premises under operating leases. During the current year, an amount of AED 121,071 (2017: AED 122,121) was recognised in the profit or loss as lease expenses.

At the reporting date, the Establishment had no outstanding commitments under non-cancellable operating leases as their lease period is not more than 1 year.

20. Financial instruments

a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the separate financial statements.

b) Categories of financial instruments

	2018 AED	2017 AED
<i>Financial assets</i>		
Loans and receivables at amortised cost (including cash and cash equivalents)	<u>94,661,161</u>	<u>48,451,431</u>
<i>Financial liabilities at amortised cost</i>		
At amortised cost	<u>90,985,288</u>	<u>33,710,226</u>

c) Fair value of financial instruments

The fair values of financial assets and liabilities at year end approximate their carrying amounts in the statement of financial position.

21. Financial risk management

The Establishment's overall financial risk management program seeks to minimise potential adverse effects to the financial performance of the Establishment. The management provides principles for overall financial risk management and policies covering specific areas, such as market risk including foreign exchange risk and interest rate risk, credit risk, and liquidity risk.

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

21. Financial risk management (continued)

(a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Establishment. Credit risk is controlled by counterparty limits that are reviewed and approved by the management.

The Establishment's principal financial assets are bank balances, other receivables, due from related parties, loan to a related party and other financial assets. The credit risk on bank balances, other receivables and other financial assets is limited because the counterparties are financial institutions registered in the United Arab Emirates.

Credit risk on loans to a related party, gold loans to subsidiaries and amounts due from related parties is limited as the management of the Establishment is actively involved in the operation of the subsidiary.

(b) Exchange rate risk management

The Establishment undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

There are no exchange rate risks as financial assets and financial liabilities are denominated in Arab Emirate Dirhams during the current year and prior period.

(c) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the management. The Establishment manages liquidity risk by maintaining adequate reserves, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Establishment has access to loans from related parties to further reduce liquidity risk.

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

21. Financial risk management (continued)

(c) Liquidity risk management (continued)

Liquidity risk tables

The following tables detail the Establishment's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Establishment can be required to pay. The tables comprise principal cash flows.

	Average interest rate %	Less than 1 month AED	1-3 months months	3 months - 1 year	Between 2 to 5 years AED	5+ years AED	Total AED	Carrying amount AED
31 March 2018								
Variable interest rate instrument	4%	66,793,100	3,858,379	17,362,706	-	-	88,014,185	84,629,023
Non-interest bearing instruments	-	6,356,265	-	-	-	-	6,356,265	6,356,265
		<u>73,149,365</u>	<u>3,858,379</u>	<u>17,362,706</u>	<u>-</u>	<u>-</u>	<u>94,370,450</u>	<u>90,985,288</u>
		=====	=====	=====	=====	=====	=====	=====
31 March 2017								
Variable interest rate instrument	2.5%	20,358,340	-	-	7,542,722	-	27,901,062	26,528,462
Non-interest bearing instruments	-	7,181,764	-	-	-	-	7,181,764	7,181,764
		<u>27,540,104</u>	<u>-</u>	<u>-</u>	<u>7,542,722</u>	<u>-</u>	<u>35,082,826</u>	<u>33,710,226</u>
		=====	=====	=====	=====	=====	=====	=====

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

21. Financial risk management (continued)

(c) Liquidity risk management (continued)

Liquidity risk tables (continued)

The following tables detail the Establishment's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets except where the Establishment anticipates that the cash flow will occur in a different period.

	Average interest rate %	Less than 1 month AED	1-3 months	3 months - 1 year	Between 2 to 5 years AED	5+ years AED	Total AED	Carrying amount AED
31 March 2018								
Fixed interest rate instruments	6%	-	-	-	24,831,312	-	24,831,312	18,555,401
Variable interest rate instrument	4%	39,147,839	-	-	-	-	39,147,839	37,642,153
Non-interest bearing instruments	-	38,463,607	-	-	-	-	38,463,607	38,463,607
		<u>77,611,446</u>	<u>-</u>	<u>-</u>	<u>24,831,312</u>	<u>-</u>	<u>102,442,758</u>	<u>94,661,161</u>
31 March 2017								
Fixed interest rate instruments	6%	-	-	-	39,258,017	-	39,258,017	29,335,876
Variable interest rate instrument	2.5%	13,233,035	-	-	-	-	13,233,035	12,910,278
Non-interest bearing instruments	-	6,205,277	-	-	-	-	6,205,277	6,205,277
		<u>19,438,312</u>	<u>-</u>	<u>-</u>	<u>39,258,017</u>	<u>-</u>	<u>58,696,329</u>	<u>48,451,431</u>

Kalyan Jewellers FZE

Notes to the separate financial statements for the year ended 31 March 2018 (continued)

21. Financial risk management (continued)

(d) Interest rate risk management

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

The Establishment's interest rate risk arises from its financial liabilities (i.e. bank overdraft and term loans received from financial institutions) which are at variable rates of interest.

If interest rate had been 50 basis point higher/lower and all other variables were held constant, the Establishment's profit for the year ended 31 March 2018 would increase/decrease by AED 271,604 (2017: increase/decrease by AED 132,642).

(e) Commodity risk management

The Establishment is exposed to price risk on its gold borrowings. As at 31 March 2018, there are no significant exposures to the commodity price risk on financial assets and financial liabilities as gold inventory is on unfixed basis which hedges the inventory to variances in the gold price rate.

22. Capital risk management

The capital structure of the Establishment consists of cash and cash equivalents and equity comprising issued share capital, loan from a shareholder and retained earnings as disclosed in the separate statement of changes in equity, loan from a shareholder and related party loans.

The Establishment manages its capital to ensure that the Establishment will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balances.

23. Non-cash transactions

	2018 AED	2017 AED
Conversion of loan to shareholders' account	94,150,000	69,431,241
Conversion of amounts due to related party to shareholders' account	-	29,407,923
Conversion of loan to share capital	-	235,000,000
Gold loan availed and disbursed to subsidiary	64,448,680	58,427,721
Interest expense on loans from a related party	-	3,312,874
Interest expense on gold loan	1,159,370	963,215
Loan arrangement and letter of credit income	1,464,361	1,682,083

24. Approval of the separate financial statements

The separate financial statements were approved by the management and authorised for issue on 27 August 2018.