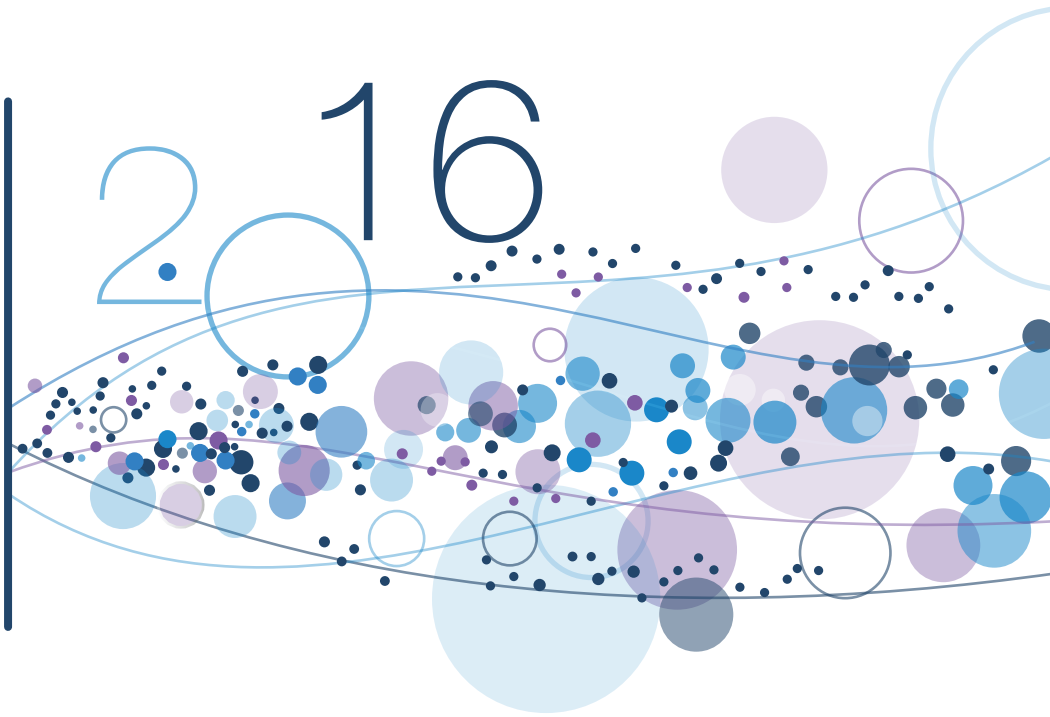
Annual Report 2016



Julphar

الخليج للصناعات الدوائية

Gulf Pharmaceutical Industries

His Highness
Sheikh Saud Bin Saqr Al Qassimi

Ruler of Ras Al Khaimah
Member of Supreme Council
United Arab Emirates

His Highness
Sheikh Khalifa Bin Zayed Al Nahyan

Ruler of Abu Dhabi
President of
United Arab Emirates

His Highness
Sheikh Mohammad Bin Saud Bin Saqr Al Qassimi

Crown Prince
of Ras Al Khaimah

Board of Directors

His Highness Sheikh Faisal Bin Saqr Al Qassimi
Chairman of the Board

Mr Hassan Ahmed Al Alkim
Vice-Chairman of the Board

Members of the Board

Sheikh Abdullah Bin Faisal Al Qassimi
Sheikh Saqr Bin Humaid Al Qassimi
Mr Ahmed Essa Al Naem
Mr Nawaf Ghobash Ahmed Saeed
Dr Ali Hussain Al Zawawi
Mr Jamal Salem Bin Darwish Al Nuaimi
Mr Ahmed Salim Abdullah Salim Al Hosni

Chief Executive Officer

Dr Ayman Sahli

Business core

Business overview

Financial results

Business core

Chairman's message

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to announce that Julphar continued to perform strongly, closing the year 2016 at AED 1.45 billion.

As the largest generic pharmaceutical company in Middle East and North Africa (MENA), Julphar has positively impacted the industry on the regional stage. Thanks to our expertise and local know-how, we now strive to thrive in international markets. These drives are at the centre of our business decisions. Our goal is to identify positive market conditions that will create long-term value for our shareholders, and with the global healthcare market continuing to grow, I am confident that the company is equipped to take on new opportunities that will come our way.

I would like to thank our greatest asset: our staff of thousands of dedicated people whose commitment to ensuring Sustainable Health to families in the region has made it possible for Julphar to contribute to the industry development. I am grateful to our Executive team for their outstanding leadership and for delivering on customer-focus strategies, and to our employees around the world for their enthusiasm and ability to adapt in challenging times.

In closing – I would like to thank you, our valued Shareholders, for your significant trust, and I extend my thanks to the Government, the Board of Directors, our customers, our well-wishers and all our stakeholders for their continued support. I am honored to serve the healthcare community towards a brighter future for all.

His Highness Sheikh Faisal Bin Saqr Al Qassimi
Chairman

CEO's statement

We close 2016 at AED 1.45 billion, delivering another excellent year for Julphar, given the economic and political challenges impacting the region. Staying true to our vision to be the leader in enabling access to quality pharmaceutical products in Middle East and Africa (MEA), we are confident that 2017 will present new opportunities for Julphar to expand our global presence and unveil new growth opportunities.

> We are now strongly positioned as a key regional pharmaceutical player in MEA.

We are now strongly positioned as a key regional pharmaceutical player in MEA. As we move forward, GCC will remain the cornerstone of our business. We will continue to work in alignment with the GCC authorities to strengthen our offering with increased healthcare expenditure from local governments, and with the maturity of the health insurance system, I strongly believe this objective is to remain the same.

In 2016, we continued to grow a solid, strong company foundation across the globe, further expanding our global manufacturing capabilities with the launch of our plant in Saudi Arabia, which was inaugurated in April 2017. Our subsidiary Julphar Bangladesh received the ISO certification by the Bangladesh Accreditation Board (BAB) for its Quality Control Laboratory, demonstrating the division's ability to produce high quality medicines that comply with international regulatory requirements. This will ensure we are better served to compete in local markets.

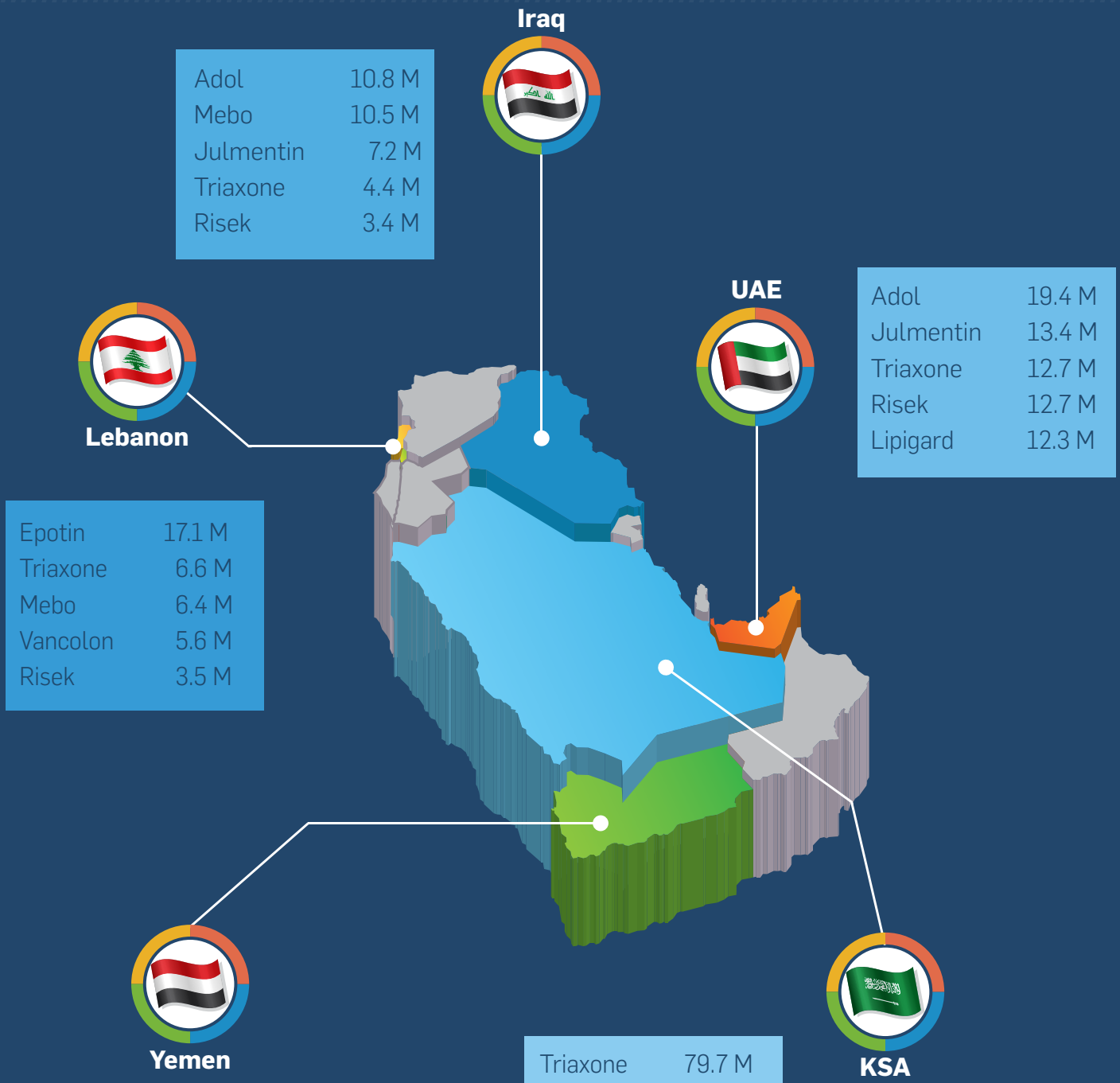
Last year, we have also kicked-off our partnerships with global pharmaceutical players, which resulted in the commercialization and distribution of new products in the GCC, such as the once daily Non-Steroidal Anti-inflammatory Drug (NSAD) Turox; medications prescribed for the management of Type 2 diabetes: Xelevia and Velmetia; and two treatments for asthma and allergy care, Xaira and Rinelon.

I would like to express my gratitude to the Board of Directors and our Executive team for their precious support and continued leadership; to our customers for their significant trust in our people and brands; to our network of more than 3,000 dedicated employees across all functions and all countries for their remarkable effort and hard work to deliver high quality, affordable medicines to communities. I am proud of their solidarity and strong work ethic, which has enabled us to achieve our goals and define work processes needed to safeguard the well-being of the company in the geopolitical dynamics at play in 2016.

Together, we will make it possible for Julphar to contribute to a better healthcare by continuously improving people's quality of life for the many years to come.

Dr Ayman Sahli
Chief Executive Officer

Top performing countries and products



CFO's statement

In 2016, despite the challenging and rapidly changing market environment, Julphar has recorded sales revenue of AED 1.45 billion. The company's performance has been strong in Private channel and in our core markets, although we faced headwinds in Tender channel and in Egypt, Afghanistan and Libya.

We have registered a growth of 4% in our Private Business. Saudi Arabia remained our highest contributor to revenue, and UAE and Oman continued to outperform the market. We delivered a double digit growth in most of our Top 10 private markets, and despite the difficult environment in Egypt and the devaluation of the local currency, we have taken actions to ensure the company returns to growth in 2017.

We also took relevant actions to enhance overall profitability by implementing strict financial discipline and cost savings initiatives, which resulted in reducing the impacts of the 2016 challenges on our net profit. Cash flow from our operating activities has increased by 44% thanks to a strong inventory management system and the optimization of our accounts payable, and all initiatives will be maintained and fine-tuned during 2017.

Going forward, we will keep on focusing on our pipeline of products. This year, we will launch 9 major new products that will provide patients across Middle East and North Africa (MENA) better options at an affordable price. Our new plant in Saudi Arabia will enable us to maximize our presence in one of the major markets in the region. Overall, our capital allocation will remain balanced between our total shareholders returns, new products investments and geographical expansion.

In order to achieve our long term vision and ambition, I am happy to announce that Julphar will soon roll-out "Julphar 2.0 Program". This initiative will drive the optimization of the company's long term operations, while our 2017 Balance Scorecard will help us stay focus on our short term goals.

The progress we have made in 2016 strongly positions Julphar to deliver its 2020 vision and objectives, and with the support of you, our dearest Shareholders, and the continued leadership of our Board of Directors, Executive team and all Julphar employees across the world, I am confident that we will continue to significantly contribute to a better healthcare in the region.

Mr. Jerome Carle
Chief Financial Officer

> "Going forward, we will keep on focusing on our pipeline of products.

VP's statement

Diabetes is considered as one of the key disease areas impacting the overall healthcare system worldwide. In the Middle East, the number of people with diabetes is the highest in the world. As of today, 20.5 million of people are living with diabetes, and 13.7 million have impaired glucose tolerance and live in the pre-diabetes stage.

In order to face this challenge, Julphar Diabetes' three divisions: insulin, oral antidiabetics and Continuous Glucose Monitors (CGMs) provide a combination of therapies and products that help patients control diabetes and maintain not only good, but also tight glycemic control to delay the progression of the disease.

Julphar Diabetes business grew by 28% over last year and reached AED 53 million (USD 14.4 million). Growth was mainly driven by in-licensed products from our collaboration with the global industry leader Merck Sharp & Dohme (MSD): the oral antidiabetics Xelevia and Velmetia, launched in the UAE market in September 2016. Since the launch, sales of Xelevia and Velmetia exceeded AED 3 million (USD 0.9 million) in the first quarter, and we are now working closely with MSD to expand the partnership to the rest of the GCC – starting with Kuwait and Qatar mid-year 2017.

As for the CGMs business, Julphar Diabetes is now representing its US partner Dexcom in the region, handling the marketing and distribution of the real-time CGM device Dexcom G4 Platinum to help diabetic patients easily and conveniently monitor and share their glucose level with others for a better management of their diabetes. Sales of the device have reached AED 2 million (USD 0.6 million) in the first year, and we have now expanded the business to LEVANT, adding Lebanon and Jordan to the agreement.

We have also completed phase I studies for the recombinant human insulin, and we are ready to produce up to 1,500 kg of recombinant human insulin crystals (rDNA) in our Good Manufacturing Practices (GMP) certified Julphar XI manufacturing facility, located in Ras Al Khaimah, UAE.

Julphar XII cartridge filling plant will be launched in 2017 and will have the capacity to produce up to 15 million of insulin pens per year, which will help alleviating pain and improve quality of life of diabetic patients with a virtually painless insulin experience.

In 2017, we are committed to sustain and expand our strong presence in the global industry, through the launch of new initiatives and activities, inclusive of high standard seminars, scientific workshops and awareness campaigns. Julphar Diabetes will continue to focus on the diabetes business to bring life changing medications and innovation to the healthcare community in the region.

Dr Aly Mousa
Vice President, Sales & Marketing

> "Julphar XII cartridge filling plant will have the capacity to produce up to 15 million of insulin pens per year.


ÄKTApilot

Sustaining Health

Julphar Gulf Pharmaceutical Industries is the largest generic pharmaceutical manufacturer in Middle East and North Africa (MENA). Established in 1980 in the United Arab Emirates under the guidance of His Highness Sheikh Saqr Bin Mohammed Al Qassimi, Julphar's first stand-alone facility produced only five products. Over three decades later, the company operates sixteen internationally certified manufacturing facilities globally, produces over a million boxes of medicines daily and holds 4,074 product registration certificates.

Thirteen of its facilities are based in the UAE and cover production areas including tablets, syrups and suspensions. It has also launched manufacturing facilities in Ethiopia and in Bangladesh as part of its ongoing international expansion strategy, and in April 2017 we have finished our world-class facility in Saudi Arabia.

In 2012 Julphar launched a 150 million-dollar Active Pharmaceutical Ingredient (API) manufacturing facility – Julphar Diabetes – entirely dedicated to producing raw material needed for insulin formulation. Julphar Diabetes has the capacity to produce 1500 kg of recombinant human insulin and insulin analogues crystals (rDNA), equivalent to 40 million vials of insulin per year. This positions Julphar among the largest manufacturers of insulin in the world, and the only one of its kind in the Middle East.

Julphar subsidiaries also include MenaCool, the transportation and shipping division of Julphar, part of a cold supply chain which runs a 24/7 service to ensure all products are delivered in a timely manner and retain their high quality, even in the face of adverse weather conditions. This 12,000 square foot facility has the capabilities of dispatching medicines within the required period.

Julphar maintains a diverse product portfolio which targets major therapeutic segments. It includes the following categories: Wound Care and Biotechnology, Adult Primary Care, Pediatric Primary Care, Gastro Care and Pain Management, Cardiopulmonary Care, Women Care, and Consumer Care.

As part of its on-going responsibility, the company partners with local and global companies to make a positive impact across all healthcare sectors through funding of scholarships for educational facilities and sponsorship of various health campaigns across MENA.

Julphar employs 3,000 people around the world and registered sales revenue of AED 1.45 billion in the year ending 2016, with a slight decline of 1 per cent of sales against 2015. Emerging markets remain a key priority for sustainable growth, as Julphar's Middle Eastern roots allow us to reach difficult markets in a timely manner.

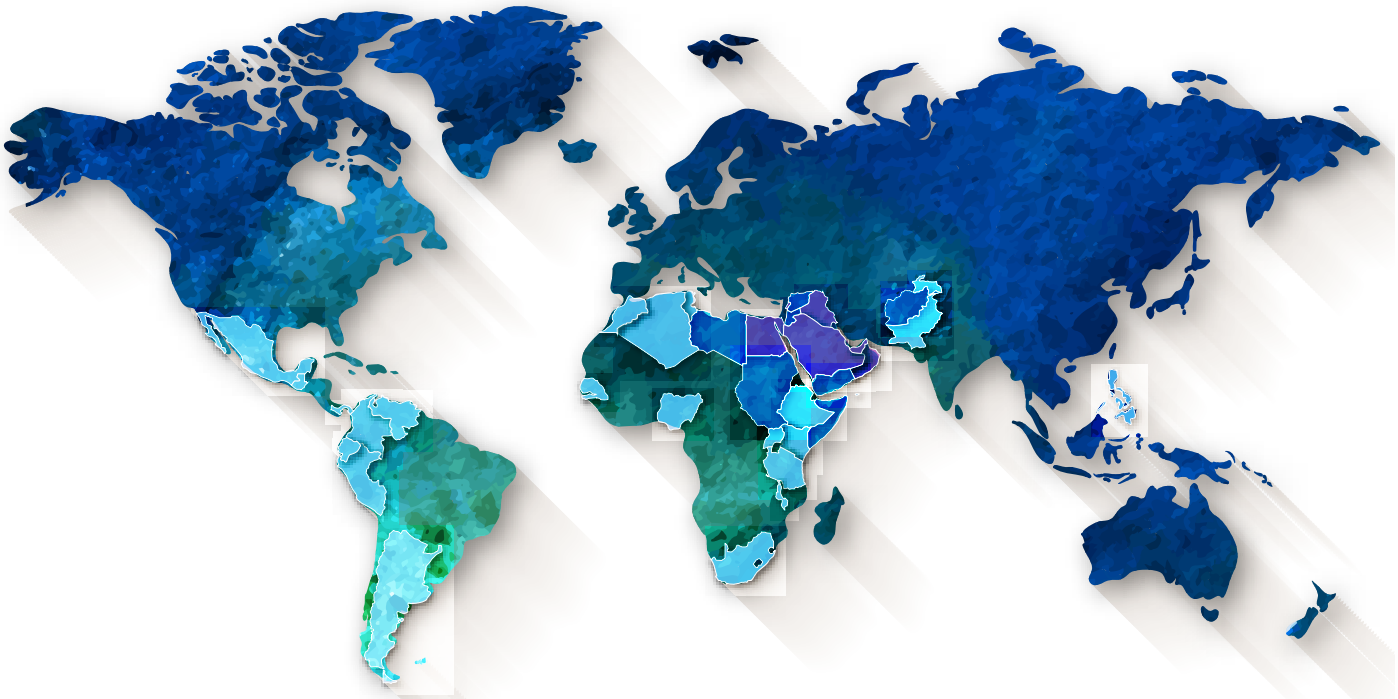
The company demonstrated a steady operational performance during 2016, posting a gross profit of AED 883.3 million for the year ending 2016, down by 3 per cent from the year 2015. Julphar's net profit for the period was AED 210 million.

With 83 registered products sold in over 40 countries, Julphar is a stellar example of one of the UAE's local businesses making an impact on the global stage.

Julphar is cGMP compliant and has gained ISO9001 and ISO 14001 accreditations, as well as the EU Good Manufacturing Practices (GMP) and Good Laboratory Practices (GLP) certifications. We work closely with regulatory bodies, such as the UAE Ministry of Health (MOH) and the US Food and Drug Administration (FDA) to ensure all our practices are aligned with the international requirements.

Julphar in essence is Sustaining Health across the globe.

2016 in numbers



Top markets

Saudi Arabia
UAE
Kuwait
Qatar
Bahrain
Oman
Iraq
Egypt
Lebanon

Established markets

Jordan
Yemen
Sudan
Libya
South Sudan
Syria
Afghanistan

Emerging markets

Algeria
Morocco
Tunisia
South Africa
Ethiopia
Nigeria
Kenya
Tanzania
Uganda
Senegal
Ecuador
Peru
Mexico
Panama
Argentina
Colombia
Venezuela
Guatemala
Philippines
Pakistan
Tajikistan

11 quality external audits

45 MenaCool trucks

194 branded products

2,942 employees

85,000 pallets loaded

18 global offices

44 countries where we are globally present

83 products registered

4,074 product registration certificates

Annual manufacturing capacities

JI - Solid Dosage Forms Plant
- 4,000 million tablets
- 360 million capsules
- 6.4 million Powder pro-suspensions.

JII - Ampoules and Vials Plant
- 25 million ampoules
- 5 million lyophilized vials

JIII - Penicillin Plant for Oral Dosage Forms
- 96 million tablets
- 500 million capsules
- 4.2 million antibiotic powder for pro-suspensions

JIV - Cephalosporin Plant for Oral Dosage Forms
- 19 million tablets
- 119 million capsules
- 4.5 million antibiotic powder pro-suspensions

JV – Packaging Plant
- Offline packaging facility

JVI - Liquid Orals Plant
- 110 million bottles of syrup, suspensions and drops

JVII - Biotech EPO Plant
- 200 grams of erythropoietin, equivalent 10 million vials

JVIII - Liquid and Lyophilized Plant
- 42 million ampoules, 7 million vials

JIX - Cephalosporin Sterile Powder Filling Plant
- 24 million units

JX - Semi Solid Dosage Forms Plant
- 60 million tubes of creams and ointments
- 250 million suppositories

JXI - Julphar Diabetes
- 1,500 kg recombinant human insulin and insulin analogues crystals (rDNA)
- 40 million vials of insulin

JXII - Insulin Cartridge Filling Plant
- 15 million insulin cartridge pens

Gulf Inject Plant (Jebel Ali Free Zone) with BFS Technology
- 35 million ampoules
- 7.2 million IV bottles
- 35 million secondary packaging of tablets and capsules

Julphar Ethiopia Oral and Topical Preparations
- 500 million tablets
- 100 million capsules
- 15 million bottles of syrups and suspensions
- 2 million tubes of ointments

Julphar Bangladesh Oral and Topical Preparations
- 300 million tablets
- 150 million capsules
- 2 million bottles of dry powder
- 2 million tubes of ointments

Julphar Saudi Arabia Oral Preparations
- 1 billion tablets, 300 million capsules
- 30 million bottles of syrups and suspensions

Highlights of the year

Every year Julphar aims to provide continuous medical education initiatives and medical updating symposiums for physicians across the regional markets. Our initiatives are intrinsically linked with our CSR strategy, where we partner with local authorities to improve the health and well-being of the community. Below is some of our achievements in 2016.

March

His Highness Sheikh Faisal Bin Saqr Al Qassimi, Chairman of Julphar, was honored for his continuous contribution to the pharmaceutical sector in the region, and for his role in the development of the medicine manufacturing industry in the UAE. Sheikh Faisal received his prize during the opening ceremony of the Dubai International Pharmaceuticals and Technologies Conference and Exhibition – DUPHAT 2016 Congress, inaugurated by His Highness Sheikh Hamdan Bin Rashid Al Maktoum, deputy ruler of Dubai and Minister of Finance and Industry of UAE.

June

Julphar launched a Continuous Medical Education (CME) program for pharmacists: JUMP – Julphar Updates on Modern Pharmacy. The monthly accredited program, launched in collaboration with the Emirates Medical Association (EMA), was designed in recognition of the effort pharmacists make to sustain and improve public health, and to highlight the importance of their role in the healthcare system. JUMP supports Julphar in its mission to enhance the health and well-being of the UAE community through excellence in pharmacy practice.

June

Julphar Bangladesh was awarded ISO/IEC 17025:2005 certification by the Bangladesh Accreditation Board (BAB) for its Quality Control Laboratory, during the 8th World Accreditation Day, a worldwide initiative established by the International Accreditation Forum (IAF) and the International Laboratory Accreditation Cooperative (ILAC) to raise global awareness of the importance of accreditation. The certificate relates to general requirements for laboratories to be technically competent to produce and carry out accurate tests and/or calibrations data – and is the first of its kind in Bangladesh.

> “We are honored to have received such an important accreditation demonstrating our ability to consistently provide medicines that meet international standards and comply with regulatory requirements.

Sudhir Kumar Sinha
Julphar Bangladesh’s Chief Operating Officer

July

Julphar announced the upcoming launch of the real-time continuous glucose monitoring device (CGM), Dexcom G4 PLATINUM in Jordan. The announcement was made during Julphar's participation in the European Association for the Study of Diabetes – The National Center for Diabetes, Endocrinology and Genetics (EASD – NCDEG) Postgraduate Education Course event. Dexcom G4 PLATINUM supports diabetic patients in easily and conveniently monitoring their glucose level around-the-clock. The device provides patients with alarms that alert them when they are outside their target zone so they can take action and avoid potential health risks

October

Julphar launched PULSE – the first research application in the region to study behaviors and attitudes in disease management. PULSE supports the company in studying key therapeutic aspects starting by studying trends in management of dyslipidemia in the region by submitting a medical study in its first phase to 30 selected practitioners on their current practices and patient-centered management of dyslipidemia. The new and one-of-a-kind mobile approach of the study will make it easier for the selected physicians to participate and to provide the most relevant inputs.

October

Julphar announced the launch of two medications prescribed for the management of Type 2 diabetes: Xelevia and Velmetia. The launch is part of Julphar's license, supply and co-marketing agreement signed in April 2014 with the global pharmaceutical leader, Merck Sharp & Dohme (MSD). These are the last two products of MSD – Julphar alliance, launched by Julphar, following the commercialization beginning of the year of the anti-inflammatory medicine Turox and of the asthma and allergy care treatments Xaira and Rinelon.

November

His Highness Sheikh Faisal Bin Saqr Al Qassimi, Chairman of Julphar and Dr. Ayman Sahli, Chief Executive Officer, received the visit of His Excellency Mr. Guillaume Barazzone, Mayor of the City of Geneva, and Her Excellency Ms. Maya Tissafi, Ambassador of Switzerland to the UAE, who paid a site visit to the company's RAK-based head office, accompanied by a delegation of members from different industries of Geneva. The meeting was the opportunity to showcase Julphar's insulin plant and emphasized its importance in the pharmaceutical industry.

Overall positioning statement

Business overview

The global healthcare market

Industry trend in MENA

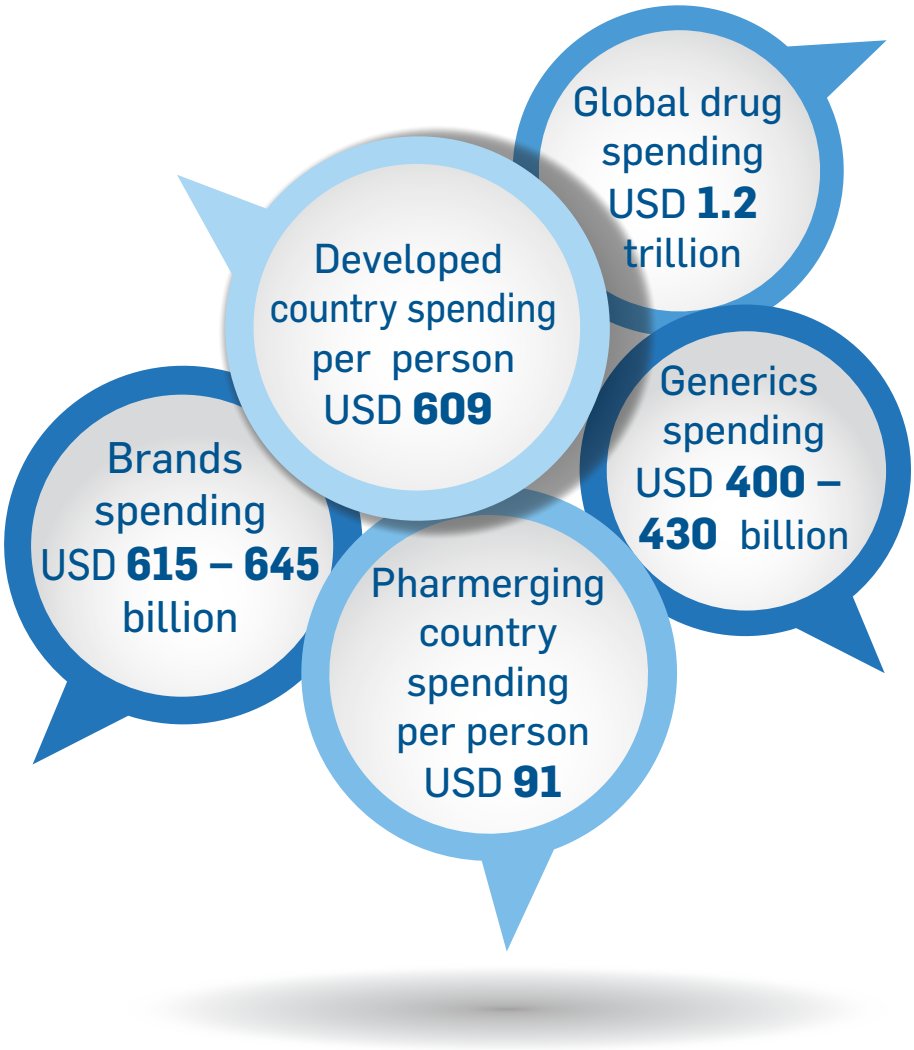
Development highlights and regional expansion in 2016

The global healthcare market

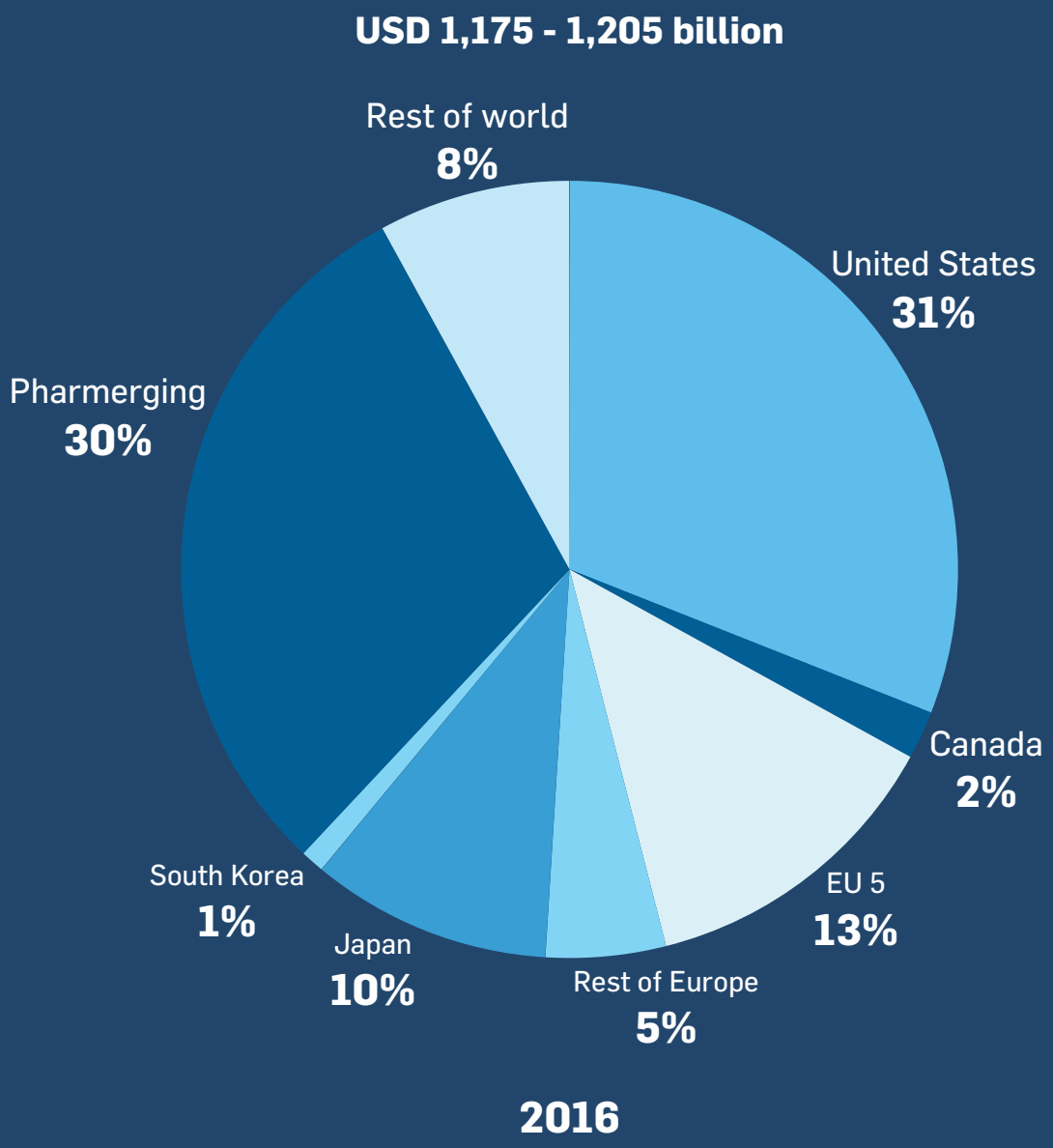
In 2016, biologics and generics were the major contributors of the global drug spending – which reached USD 1.2 trillion.

In developed countries and region – such as the United States, Japan and Europe – drug spending declined. This decrease can be attributed to 3 factors: the expiring licenses of branded drugs; the slow increase of branded drugs spending; and the increase of cost containment.

In the meantime, pharmerging markets' drugs utilization reached 30% of the global drug spending, which can be explained by the development of both population and economy in those emerging markets.



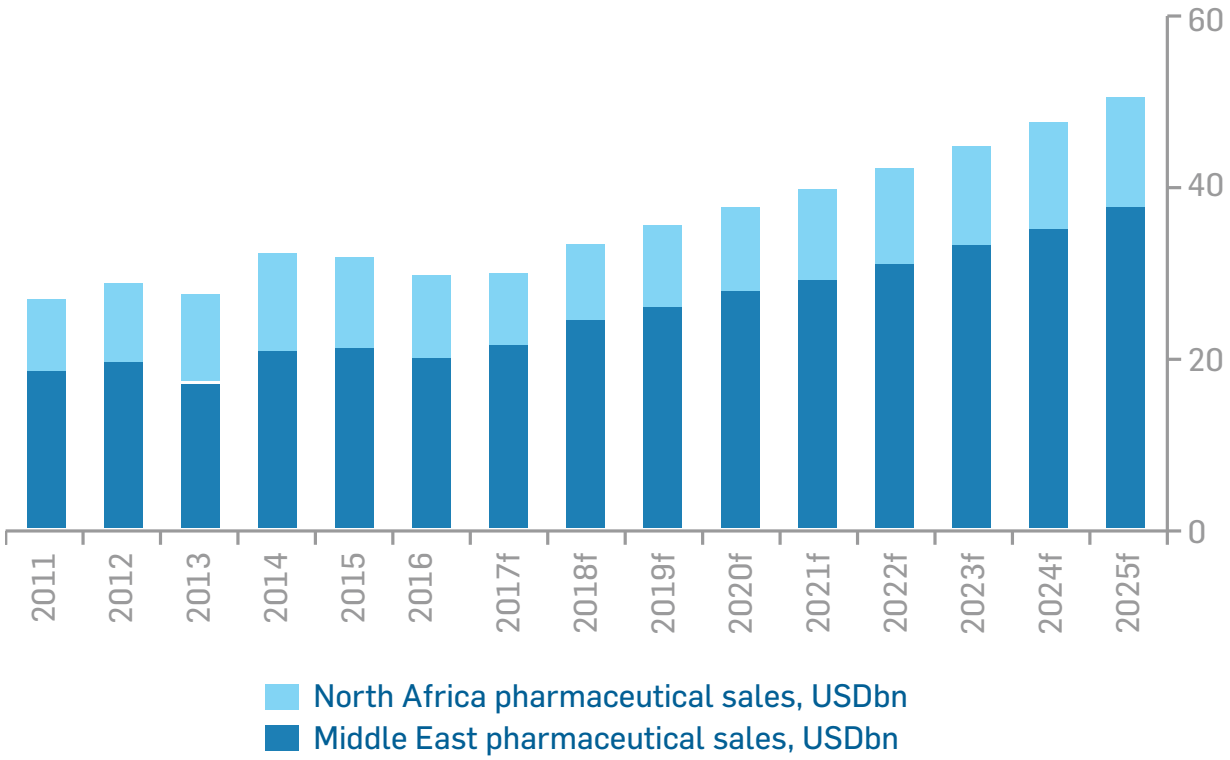
Spending by geography



Source: The Global Use of Medicines: Outlook through 2016, Report by the IMS Institute for Healthcare Informatics

Industry trend in MENA

In the coming years, expansion of healthcare privatization and new partnerships between the public sector and pharmaceutical companies are expected to strengthen drug deals opportunities in the healthcare industry. Middle East and North Africa (MENA) will remain a key area of opportunity for pharmaceutical companies, and drug market is expected to post a compound annual growth rate (CAGR) of 6.6% by 2020 in the Middle East and 7.6% in North Africa.



Source: f = BMI forecast, UN Comtrade, National Sources

Development highlights and regional expansion in 2016

As the leading manufacturer of generics in MENA, Julphar produces and distributes a growing portfolio of affordable and accessible products – inclusive of antibiotics, antiseptics, syrups, injectable, suspensions and oral solutions.

The expansion of Julphar's manufacturing capabilities and the launches of new medicines are part of the company's strategy to achieve its vision to contribute to a better healthcare and be the leader for pharmaceutical products in the region.
Below are some of the company's achievements for the year 2016 that are in line with its strategy:

- **February 2016** - Julphar announces the launch of Xaira and Rinelon (mometasone furoate) in UAE, its two products that will broaden the company's asthma and allergy lines and meet the growing demand for respiratory products in GCC and Middle East;
- **February 2016** - Julphar announces the launch of the anti-inflammatory Turox, as per the company's manufacturing partnership agreement with Merck Sharpe & Dohme (MSD) signed in 2014, which grants Julphar the exclusive rights to commercialize and distribute second brand versions of five MSD products in UAE, Kuwait, Bahrain, Oman, Qatar and Iraq;
- **April 2016** - Julphar launches Enoxirt/Triaxone (ceftriaxone) in Egypt, the injectable antibiotic for the treatment of respiratory infections and Julphar's market leader in Saudi Arabia and Lebanon;
- **May 2016** - Julphar Bangladesh signs a strategic toll agreement with the Bangladeshi company SMC Enterprise Limited to manufacture pharmaceutical products of all dosage forms;
- **May 2016** - Julphar launches Sojourn (sevoflurane) for general anesthesia in Saudi Arabia;
- **May 2016** - Julphar launches MEBO Scar in Algeria, its product for wound and scar management;
- **June 2016** - Julphar launches its new proton acid suppressor tablets Pantonix (pantoprazole) in UAE;
- **June 2016** - Julphar Bangladesh receives the ISO certification from the Bangladesh Accreditation Board (BAB), demonstrating the company's ability to provide medicines that meet and comply with international standards and regulatory requirements;
- **July 2016** - Julphar announces the launch of its real-time continuous glucose monitoring device Dexcom G4 Platinum in Jordan.

Source: BMI Research

Financial results

Business and financial overview

Operational performance overview

Revenues from sales

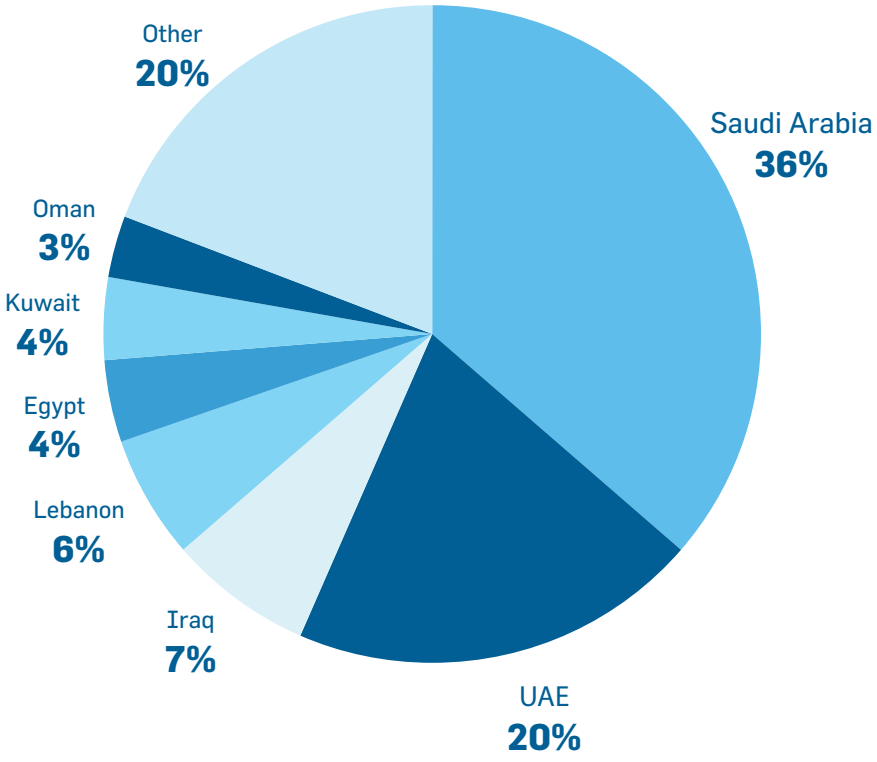
Julphar and its subsidiaries recorded Sales of AED 1,454 million during the year 2016, a small decline of 1% over 2015 sales of AED 1,470 million, mostly due to headwinds in Tender channel, Egypt, Afghanistan and Libya.

Private market vs. government sector sales

Julphar's Standalone sales is AED 1,289 million for the year 2016. Private markets sale of AED 1,061 million contributed 82% of the sales whereas tender market contributed AED 228 million with 18%.

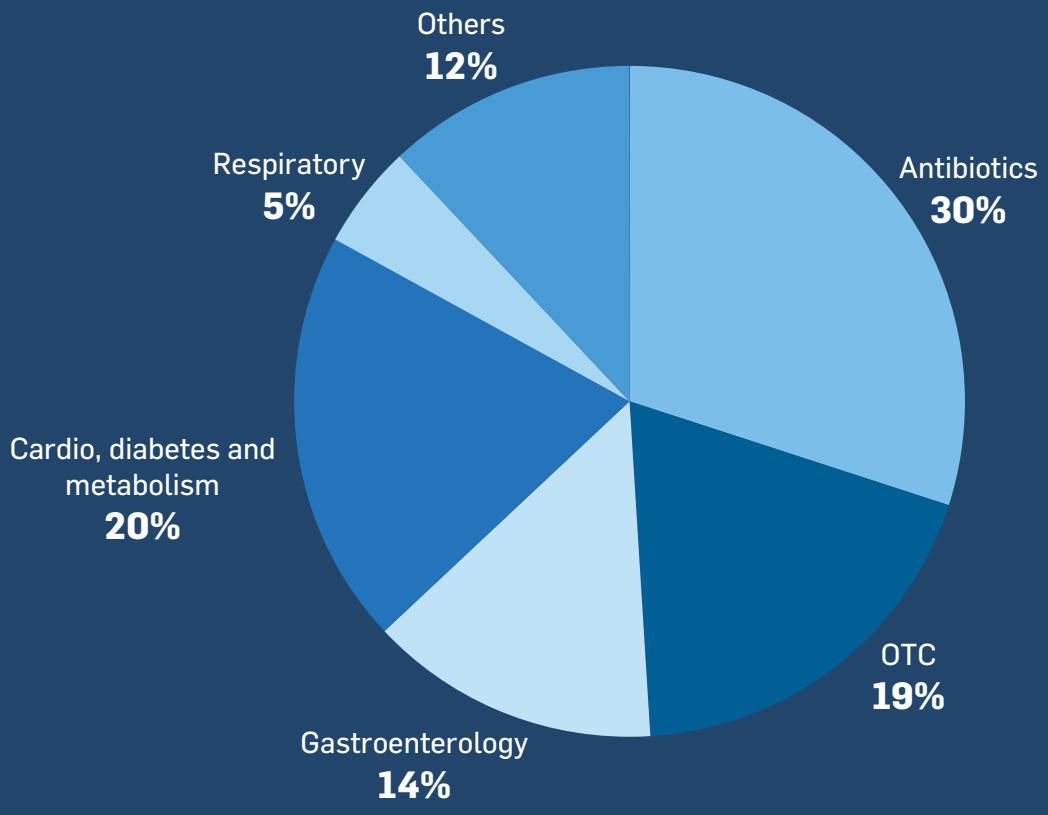
Country-wise sales

Saudi Arabia, with a contribution of 36%, continued to be the leading market for Julphar's products during the period. It was followed by UAE (20%), Iraq (7%), Lebanon (6%), Egypt (4%), Kuwait (4%), and Oman (3%). The top-7 markets, thus, accounted for 80% of the sales.



Therapeutic segment-wise sales

Antibiotics led the therapeutic segment sales for Julphar as the leading product segment for the year 2016 accounting 30% of the sales, followed by OTC products and gastroenterology. The top-5 segments accounts for 80% of the sales.



Order book

Total orders

The company continued the tradition of healthy order book in the beginning of the year. Total orders in hand amounted to AED 234 million, out of which AED 148 million (63% share) pertained to Private Market and the balance AED 86 million (37% share) belonged to Tender Market.

Major orders emanated from Saudi Arabia, UAE, Lebanon and Iraq in the beginning of 2017.

Financial performance overview

The financial performance of Julphar during the year under review was as under:

Sales

During 2016, Julphar registered sales of AED 1,454 million, as against AED 1,470 million in 2015.

The total sales figure includes the consolidation of sales from Julphar Standalone with the subsidiaries Julphar Bangladesh, Julphar Ethiopia, Julphar KSA, Julphar Egypt and Gulf Inject.

Cost of Sales

The cost of sales for the year was AED 703 million (after reclassification of bonus goods from selling and distribution to cost of sales), small increase of 0.3%. As a share of sales revenues, the overall direct costs remained stable at 48%.

Gross Profit

Gross profit stood at AED 751 million (after reclassification of bonus goods from selling and distribution to cost of sales), which was 2% lower than the 2015 figure of AED 768 million.

(AED mn)	2016	2015	Change	% Change
Sales	1,454.5	1,470.2	(16)	-1%
Gross profit	750.7	768.4	(18)	-2%
Other income	8.1	16.5	(8)	-51%
Selling & distribution expenses	(463.7)	(430.8)	(33)	8%
General & administration expenses	(110.8)	(108.7)	(2)	2%
Operating profit	229.1	249.7	(21)	-8%
Gain from investment and others	22.6	(3.5)	26	#
Net finance cost	(19.1)	(23.1)	4	-17%
Share of profit from investments	22.1	7.8	14	185%
Net profit	210.1	226.6	(17)	-7%

Operating profit

Selling and Distribution Expenses increased to AED 464 million (after reclassification of bonus goods from selling and distribution to cost of sales) during the year, an increase of AED 33 million compare to the year 2015. General & administrative expenses, increased to AED 111 million, an increase of only AED 2 million compare to AED 108 million in the year 2015 mainly driven by efficiencies to control costs during the year. Higher expenses mainly attributed to higher provision for inventory of AED 3 million. The Operating Profit for the year was AED 229 million against AED 250 million in the previous year, decline of 8% yoy.

Finance cost

The net finance cost for the year was AED 19 million, down by AED 4 million compared with AED 23 million in 2015.

Net profit

Net Profit of Julphar for the year reached AED 210 million, lower by 7% compared to AED 226 million in 2015.

Earnings per share

Basic earnings per share for the year was 19 fils compare to 21 fils for the previous year.

Dividend for the year

The Board has recommended a cash dividend of 16% (16 fils per share) and stock dividend of 3% for 2016, as against a cash dividend of 11% (11 fils per share) and stock dividend of 4% paid out for 2015.

The proposed dividend will be paid out subject to approval in the Annual General Meeting.

Capital structure

The paid-up capital of the company at the end of December 2016 was AED 1,092 million, as against AED 1,050 million at the end of the previous year. Shareholders' equity stood at AED 2.3 billion, up from AED 2.2 billion by 0.5% from the end of 2015.

Non-current debt stood at AED 304 million, decline from AED 307 million by the year end of 2015. Current debt stood at AED 487 million at the end of the year compare to AED 503 million. Total Debt-Equity ratio at the end of the year was 0.3.

The current ratio (current asset over current liabilities) of the company was 2.4 at the end of December 2016.

Outlook

Continued optimism and growth in the region gives us the reason to believe that the company's revenues would grow at a steady rate with fairly steady margins in the year 2016. Pharmaceutical market in GCC is expected to grow at 12.1% CAGR leading to 2020 [source: Alpen Capital GCC Healthcare]. Increasing expat population coupled with lifestyle related diseases and mandatory insurance are growth drivers for healthcare and pharmaceutical industry and it will help us to grow our private sector business in the year 2017. In addition to the organic growth of the company, commissioning of new KSA plant in 2017 would complement the growth in our Saudi business.

Majority of business being generated from the MENA region, the company shall face some resistance due to the continued instability in some of the countries in the region, however, the overall growth is expected to be better than the other markets. Addition of generic products to our existing portfolio is likely to help us to consolidate our leadership positions in the existing markets and expand to newer markets with better profitability. Addition of Bangladesh and Ethiopian plant opens up opportunities to explore newer markets in addition to our traditional markets.

With a strong financial outcome, the company's books look solid as usual and our efforts to improve our operational efficiency, reduce sales and distribution expenses started showing the results and offer us the opportunity to constantly look for avenues to grow inorganically adding to our strong organic growth. We are confident of marching forward with renewed energy and continued focus to deliver an outstanding performance in the year 2016 as well.

Basis of preparation and forward-looking statements

This Business and Financial review has been prepared solely to provide additional information to shareholders to assess the company's strategies and the potential for those strategies to succeed, and should not be relied on by any other party or for any other purpose. The World Bank's classification for MENA region has been relied on for our analysis of and outlook for the region. Certain statements in the above review are forward-looking statements – using words such as "intends", "believes", "anticipates", "projects", "likely" and "expects". Where included, these have been made by the company management in good faith based on the information available to them up to the time of their approval of this report.

By their nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, and should be treated with caution. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described in this review. Statements contained in this review regarding past trends or activities should not be taken as a representation of perceived trends or activities in the future. Undue reliance should not be placed on forward-looking statements, which are valid only on the date of the approval of this report.

Except as required by law, the company is under no obligation to update or keep current the forward-looking statements contained in this review, or to correct any inaccuracies which may become apparent in such forward-looking statements.

julphar.net

Julphar

Directors' Report

The Board of Directors of Gulf Pharmaceutical Industries P.S.C. (the "Company") and its subsidiaries (the "Group" or "Julphar") is pleased to present their report along with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Financial Performance

Julphar recorded Sales of AED 1.45 billion, a decline of 1% against 2015 sales of AED 1.47 billion.

The net profit is AED 210.0 million for the year ended 31 December 2016 as compared to AED 226.6 million in the previous year, down by 7%.

Outlook 2017

Julphar's strategy for 2017 is to further consolidate its strong position in the major markets like GCC and be a market leader in generics by introducing several new products. Julphar would like to focus its overseas manufacturing facilities in Saudi Arabia which is expected to have a production trial phase in 2017 and 10 products will be submitted for registration by December 2017. Gulf Inject's revenue and profit will be boosted by 11 products to be registered in 2017.

Proposed Dividend

The Board has recommended a cash dividend of 16% and 3% bonus shares to the shareholders of the Company.

Auditors

M/s PricewaterhouseCoopers have been appointed by the Board of directors as auditors for the period under report.

Acknowledgements

The Boards of Directors would like to express their gratitude & appreciation to all its shareholders, clients and business partners, government agencies, banks & financial institutions and its employees, whose continued support has been a great strength & encouragement.

On behalf of the Board

Sh Faisal Bin Saqer Al Qasimi
Chairman
22 March 2017

Independent auditor's report to the shareholders of Gulf Pharmaceutical Industries P.S.C

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gulf Pharmaceutical Industries P.S.C's (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the ***Auditor's responsibilities for the audit of the consolidated financial statements section of our report.***

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Adequacy of allowance for doubtful trade receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent auditor's report to the shareholders of Gulf Pharmaceutical Industries P.S.C (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Adequacy of allowance for doubtful trade receivables Refer to Note 11 of the consolidated financial statements for details of trade receivables included within trade and other receivables. We considered trade receivables to be a key audit matter because management exercises significant judgement regarding both the recoverability of the balances and in estimating the extent of any provision for impairment required in respect of such balances. The magnitude of any resultant impairment against the outstanding amounts could be material to the consolidated financial statements.	We discussed with management their assessment of the recoverability of individual balances within trade receivables and the basis of their assessment. We reviewed the ageing of trade receivables and general collection period using the days sales outstanding ratio. We considered all trade receivables overdue for more than 6 months for recoverability. For these trade receivables, we corroborated management's assessment through our analysis of the sales and collection activity during the year, subsequent collections, relationship with the customers and customer's financial stability. We obtained independent confirmations from the major customers covering a majority of the total overdue balances.

Other information

Management is responsible for the other information. The other information comprises Directors' report but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Independent auditor's report to the shareholders of Gulf Pharmaceutical Industries P.S.C (continued)

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

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

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

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

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

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

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

Independent auditor's report to the shareholders of Gulf Pharmaceutical Industries P.S.C (continued)

Report on other legal and regulatory requirements

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

(i) we have obtained all the information we considered necessary for the purposes of our audit;

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

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the report of the Directors' is consistent with the books of account of the Group;

(v) as disclosed in notes 8 and 10 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2016.

(vi) note 28 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2016; and

(viii) note 21 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2016.

PricewaterhouseCoopers
23 March 2017

Jacques Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Consolidated Statement of Financial Position

as at 31 December 2016

AED in millions

	As at 31 December	
	2016	2015
ASSETS		
Non-current assets		
Property, plant and equipment	1,162.8	1,162.1
Intangible assets	49.9	73.7
Investment in associate	263.7	241.6
Available-for-sale-financial assets	47.2	73.4
Total non-current assets	1,523.6	1,550.8
Current assets		
Inventories	387.2	491.4
Financial assets at fair value through profit and loss	19.0	22.4
Trade and other receivables	1,379.6	1,239.8
Cash and bank balances	164.0	151.5
	1,949.8	1,905.1
Total Assets	3,473.4	3,455.9
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1,092.0	1,050.0
Statutory reserve	546.0	532.0
Voluntary reserve	184.8	184.8
Foreign currency translation reserve	(120.0)	(3.3)
Fair value reserve	2.7	16.6
Retained earnings	462.1	421.5
Capital and reserves attributable to shareholders of the company	2,167.6	2,201.6
Non-controlling interest	138.6	91.2
Net equity	2,306.2	2,292.8
LIABILITIES		
Non-current liabilities		
Provision for employees' end of service indemnity	44.3	42.4
Bank borrowings	304.0	307.2
	348.3	349.6
Current liabilities		
Bank borrowings	487.7	503.3
Trade payables and other accruals	331.2	310.2
	818.9	813.5
Total liabilities	1,167.2	1,163.1
Total equity and liabilities	3,473.4	3,455.9

These consolidated financial statements were approved by the Board of Directors on 22 March 2017 and signed on its behalf by:

H.H. Faisal Bin Saqr Al Qasimi
Chairman

Dr. Ayman Sahli
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2016

AED in millions

	2016	2015
Sales	1,454.5	1,470.2
Cost of sales	(703.8)	(701.8)
Gross profit	750.7	768.4
General and administrative expenses	(110.6)	(108.7)
Selling and distribution expenses	(463.7)	(430.8)
Other income	8.1	16.5
Other (loss)/gain from investments	22.6	(3.5)
Share of profit from investment accounted for using the equity method	22.1	7.8
Operating profit	229.2	249.7
Finance income	8.9	4.4
Finance costs	(28.0)	(27.5)
Finance costs – net	(19.1)	(23.1)
Profit for the year	210.1	226.6
Attributable to:		
Owners of the company	212.1	230.4
Non-controlling interest	(2.0)	(3.8)
	210.1	226.6
Basic and diluted earnings per share (in UAE fils)	18.9	20.5

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

AED in millions

	2016	2015
Profit for the year	210.1	226.6
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Change in the fair value of available-for-sale investments	(5.6)	24.9
Reclassification adjustment on disposal of available for sale investments	(8.3)	-
	(13.9)	24.9
Currency translation differences	(116.7)	(2.5)
Total other comprehensive income	(130.6)	22.4
Total comprehensive income for the year	79.5	249.0
Attributable to:		
Owners of the company	81.5	252.8
Non-controlling interest	(2.0)	(3.8)
	79.5	249.0

Consolidated Cash Flows

For the year ended 31 December 2016

AED in millions

	2016	2015
Cash flow from operating activities		
Profit for the year	210.1	226.6
Adjustments for:		
Depreciation of property, plant and equipment	89.5	92.6
Amortisation of intangible asset	3.8	3.8
Gain on bargain purchase	-	(3.4)
Share of profit from investment in associate	(22.1)	(7.8)
Allowance for slow-moving inventories	3.1	11.5
Allowance for doubtful debts	16.5	20.6
Loss/(gain) on sale of property, plant and equipment	0.2	(0.2)
Gain on sale of financial asset at FVTPL	(3.7)	(0.2)
(Gain)/loss on revaluation of financial asset at FVTPL	(8.0)	8.4
Gain on sale of available-for-sale investments	-	(2.7)
Recycled gain on available-for-sale investments	(8.3)	(0.2)
Provision for employees' end of service indemnity	7.8	5.6
Finance income	(9.1)	(4.4)
Finance costs, net	28.0	27.5
Operating cash flow before payment of EOSB and changes in working capital	307.8	377.7
Employees end of service benefits paid	(5.9)	(2.9)
Changes in working capital:		
Trade and other receivables	(156.4)	(111.6)
Inventories	101.1	(3.7)
Trade payables and accruals	21.0	(77.0)
Net cash generated from operating activities	267.6	182.5
Cash flows from investing activities:		
Additions to property, plant and equipment and intangible assets	(103.1)	(111.0)
Sales proceeds from disposal of available-for-sale financial assets	20.6	14.7
Sales proceeds from sale of financial asset at FVTPL	15.0	5.4
Proceeds from sale of property, plant and equipment and intangible assets	3.0	2.9
Dividends received from investment accounted for using the equity method	-	44.0
Acquisition of subsidiaries, net of cash acquired	-	(79.4)
Net cash used in investing activities	(64.5)	(123.4)
Cash flows from financing activities:		
Proceeds from bank borrowings	456.9	510.6
Repayment of loans	(474.1)	(403.5)
Dividends paid	(116.2)	(150.0)
Increase in non-controlling interest	47.4	38.8
Finance income received	9.1	4.4
Interest paid	(28.0)	(27.5)
Net cash used in financing activities	(104.9)	(27.2)
Net increase in cash and cash equivalents	98.2	31.9
Currency translation differences	(85.7)	(1.3)
Cash and cash equivalents, at the beginning of the year	151.5	120.9
Cash and cash equivalents, end of the year	164.0	151.5

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2016

AED in million

	Share capital	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Attributable to owners of the company	Non-controlling interest	Total
At 1 January 2015	**1,000.0**	**532.0**	**184.8**	**(0.8)**	**(8.3)**	**391.1**	**2,098.8**	**29.9**	**2,128.7**
Profit for the year	-	-	-	-	-	230.4	230.4	(3.8)	226.6
Comprehensive income for the year	-	-	-	(2.5)	24.9	-	22.4	-	22.4
Total comprehensive income for the year	-	-	-	(2.5)	24.9	230.4	252.8	(3.8)	249.0
Issuance of bonus shares	50.0	-	-	-	-	(50.0)	-	-	-
Cash dividends for 2014	-	-	-	-	-	(150.0)	(150.0)	-	(150.0)
Movement in non-controlling interest	-	-	-	-	-	-	-	65.1	65.1
	50.0	-	-	(2.5)	24.9	30.4	102.8	61.3	164.1
Balance at 31 December 2015	**1,050.0**	**532.0**	**184.8**	**(3.3)**	**16.6**	**421.5**	**2,201.6**	**91.2**	**2,292.8**
At 1 January 2016	1,050.0	532.0	184.8	(3.3)	16.6	421.5	2,201.6	91.2	2,292.8
Profit for the year	-	-	-	-	-	212.1	212.1	(2.0)	210.1
Comprehensive income for the year	-	-	-	(116.7)	(13.9)	-	(130.6)	-	(130.6)
Total comprehensive income for the year	-	-	-	(116.7)	(13.9)	212.1	81.5	(2.0)	79.5
Issuance of bonus shares	42.0	-	-	-	-	(42.0)	-	-	-
Cash dividends for 2015	-	-	-	-	-	(115.5)	(115.5)	-	(115.5)
Transfer to statutory reserve	-	14.0	-	-	-	(14.0)	-	-	-
Movement in non-controlling interest	-	-	-	-	-	-	-	49.4	49.4
Movement in non-controlling interest	42.0	14.0	-	(116.7)	(13.9)	40.6	(34.0)	47.4	13.4
Balance at 31 December 2016	**1,092.0**	**546.0**	**184.8**	**(120.0)**	**2.7**	**462.1**	**2,167.6**	**138.6**	**2,306.2**

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2016)

1. Establishment and operations

Gulf Pharmaceutical Industries is a public shareholding company ("the Company") domiciled in Digdaga - Ras Al Khaimah. It was incorporated by the Emiri decree No.5/80 issued by H.H. The Ruler of the Emirate of Ras Al Khaimah and its dependencies on March 30, 1980 and the Emiri decree No.9/80 on May 4, 1980. The Company's registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates. The Company commenced its commercial activities effective from November 1984. The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Company and its subsidiaries has come into effect on 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law which includes among others composition of the Board of Directors in odd numbers and approval of the Board of Directors prior to conducting transactions with related parties. As per the transitional provisions contained therein, companies are allowed 24 months from the effective date to ensure compliance with the Companies Law.

The main activities of the company and its subsidiaries ("the Group") are manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are as set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with IFRS

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to the companies reporting under IFRS. These consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(b) Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and financial assets at fair value through profit or loss.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which by definition, will seldom equal the actual results. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(c) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ended on 31 December 2016 and have not been early adopted by the Group. None of these are expected to have a significant effect on these consolidated financial statements of the Group except the following set out below.

• IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no subsequent recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018 and earlier adoption is permitted. The Group is yet to assess IFRS 9's full impact;

• IFRS 15 "Revenue from Contracts with Customers", provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

(i) Identify the contract with the customer

(ii) Identify the performance obligations in the contract

(iii) Determine the transaction price

(iv) Allocate the transaction price to the performance obligations in the contracts

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is yet to assess IFRS 15's full impact.

IFRS 16 "Leases", sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group is yet to assess IFRS 16's full impact.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Company's functional and Group's presentation currency.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'finance income or costs'. All other foreign exchange gain and losses are presented in the statement of within 'other income' or 'other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income in the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are recognised in other comprehensive income. When a foreign operation is disposed of partially or in full, exchange differences that were recorded in equity are recognised in the consolidated statement of income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in or an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

Details of the Company's subsidiaries as of 31 December 2016 were as follows:

Name of subsidiary	Place of incorporation and operation	Percentage of ownership	Principal activity
Mena Cool F.Z.E	Ras Al Khaimah-UAE	100%	Transportation
Julphar Pharmaceuticals P.L.C	Ethiopia	55%	Manufacturing of medicines, wrapping and packing materials
Julphar Pharma GMBH	Germany	100%	Manufacturing of medical supplies – Discontinued
Gulf Inject L.L.C.	Dubai – UAE	51%	Manufacturing of medical supplies
RAK Pharmaceuticals Pvt. Ltd.	Dhaka – Bangladesh	50.5%	Manufacturing of medicines
Julphar Saudi Arabia L.L.C.	Rabigh – Saudi Arabia	51%	Manufacturing of medicines
Julphar Egypt Company L.L.C.	Cairo – Egypt	100%	Distributors of Julphar's products in Egypt
Julphar Diabetes L.L.C. U.A.E.	Ras Al Khaimah	100%	Manufacturer of insulin products
Julphar General Trading L.L.C.	Ras Al Khaimah U.A.E.	100%	General Trading
Mena Cool Machinery Trading	Ras Al Khaimah U.A.E.	100%	General Trading

2.4 Property, plant and equipment

Property, plant and equipment comprise land and buildings, plant and machinery, installations, furniture and fixtures, motor vehicles, tools and equipments, leasehold improvements and capital work-in-progress.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the purchase of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation of assets is calculated using the straight-line method at rates calculated to allocate the cost of assets to their estimated residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the consolidated financial statements
ffor the year ended 31 December 2016 (continued)

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

Assets	%
Buildings	10-50
Plant and machinery	3-17
Installations	4-25
Motor Vehicles	3-10
Furniture and fixture	4-10
Tools and equipment	3-10
Land improvements	10-25

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and included in the consolidated statement of income.

Capital work in progress is stated at cost. When ready for intended use, capital work in progress is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the Group's policy.

2.5 Intangible assets

(a) Developed Products

Currently marketed products represent the composite value of acquired intellectual property, patents and distribution rights and product trade names that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. They have a finite useful lives and are subsequently carried at cost less accumulated amortization and impairment if any. These are amortised using the straight-line basis over the useful life ranging from the 15 to 20 years.

(b) Licenses and permits

Licenses, registrations and permits comprise of rights to distribute Julphar's products in certain countries that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these licenses and permits. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 5 to 20 years.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

2.7 Financial assets

2.7.1 Classification

The Group classifies its financial assets as loans and receivables (Note 11), available-for-sale investments (Note 8) and financial assets at fair value through profit and loss (Note 10). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short to medium term.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise, 'Trade and other receivables (excluding prepayments and advances)', 'due from related parties' and 'cash and cash equivalents' in the consolidated statement of financial position.

(c) Available-for-sale financial asset
Available-for-sale financial asset are non-derivative financial assets that are designated in this category and are not classified in any other categories. They are included in non-current assets unless management intends to dispose off the investment within 12 months after the balance sheet date.

2.7.2 Recognition, de-recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are initially measured at fair value and subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of income as 'Gains and losses from investment securities'.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the consolidated income statement within 'other income/(loss) from investments' in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss and available for sale are recognised in consolidated statement of income within 'other income/(loss) from investments' when the Group's right to receive payment is established.

Notes to the consolidated financial statements
ffor the year ended 31 December 2016 (continued)

2.8 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.9 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an extent occurring after the impairment was recognised (such as an impairment in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of income.

(b) *Assets classified as available-for-sale*

The Group assess at the end of each reporting period whether there is any objective evidence that a financial asset or a Group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in profit and loss. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

2.10 Inventories

Raw materials and stores, spare parts and consumables, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

2.11 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (if any).

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 120 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Employee benefits

(a) Employee's benefits to non- UAE nationals

Accruals are made for employees in the UAE for estimated liability for their entitlement to annual leave and leave passage as a result of services rendered up to the statement of financial position date. Provision is also made, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the statement of financial position date.

The accruals relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

(b) Pension and Social security policy with the UAE

The Group is a member of the pension scheme operated by the federal Pension General and Social Security Authority. Contributions for eligible UAE National employees are made and charged to the consolidated statement of income in accordance with the provisions of Federal Law No. 17 of 1999 relating to Pension and Security Law. The group has no further payments obligations once the contribution has been paid.

Notes to the consolidated financial statements
ffor the year ended 31 December 2016 (continued)

2.16 Provisions

Provisions for legal claims and other obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.18 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods – whole sale

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and rebates.

Revenue is recognised in the consolidated statement of income when:

- persuasive evidence exists, that the significant risks and rewards of ownership have been transferred to the customer;
- recovery of the consideration is probable;
- the associated costs and possible return of goods can be estimated reliably;
- there is no continuing management involvement with the goods; and
- the amount of revenue can be measured reliably

Significant risks and rewards of ownership are transferred as per the contractual terms as agreed with the customers.

2.20 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

2.21 Dividends

Dividend revenue from investments is recognized when the Company's right to receive payment has been established.

2.22 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Shareholders in their Annual General Meeting.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's management.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

4 Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that could potentially but not necessarily have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are below:

(a) Useful lives of intangible assets

The Group carries its intangibles, at cost less accumulated amortisation and impairment losses. The intangible assets are amortised over their useful lives.

The determination of these useful lives of intangibles requires the use of assumptions of the manner in which the assets will be realised by the Group. These assumptions are based on historical experience, contractual terms of agreements related to the intangibles and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The key assumption on which management has based its estimations of the useful lives of the assets is the likelihood of renewal of licenses and registration of products and management's future plans for continued use of licenses and registrations.

(b) Allowance for doubtful debts

Allowance for doubtful debts is determined using a combination of factors to ensure that the receivables are not overstated due to uncollectibility. The allowance for doubtful debts for all customers is based on a variety of factors, including the overall quality and aging of the receivables, continuing credit evaluation of the customers' financial conditions and collateral requirements from customers in certain circumstances. Also, specific provisions for individual accounts are recorded when the Group becomes aware of the customer's inability to meet its financial obligations.

(c) Allowance for slow moving and obsolete inventories

Inventories are stated at the lower of cost or net realizable value. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made at the product level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues. Based on the factors, management has identified inventory items as slow and non-moving to calculate the allowance for slow moving and obsolete inventories. Revisions to the allowance for slow moving inventories would be required if the outcome of these indicative factors differ from the estimates.

(d) Useful lives of property, plant and equipment

Management reviews the residual values and estimated useful lives of property, plant and equipment at the end of each annual reporting period in accordance with IAS 16. Management determined that current year expectations do not differ from previous estimates based on its review.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

(e) Valuation of unquoted AFS equity investments

Valuation of unquoted AFS equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, these investments are carried at cost less recognised impairment losses, if any. Management believes that the carrying values of these unquoted equity investments are not materially different from their fair values.

5 Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law No. 2 of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year. This appropriation shall be suspended once its balance reaches 50% of the share capital. The statutory reserve only includes the parent company as the other subsidiaries do not require a statutory reserve.

This reserve is not available for distribution except in the circumstances stipulated by the law.

6 Voluntary reserve

Appropriations to the voluntary reserve account represents appropriation of up to 10% of the profit for the year as proposed by the Board of Directors and approved by the Shareholders general assembly. This reserve is distributable based on a recommendation by the Board of Directors and approval of the Shareholders general assembly.

7 Basic and diluted earnings per share

Basic earnings per share of AED 18.9 fils is calculated by dividing the profit for the year attributable to the shareholders of the Parent company of AED 212.1 million (2015: AED 230.4 million) by the weighted average number of shares outstanding during the year of 1,092,000 thousand (2015: 1,050,000 thousand) as adjusted for 43,680 thousand bonus shares issued pursuant to Board Meeting held on 19 March 2017. The Company does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.

8 Dividends

At the Board of Directors meeting held on 19 March 2017, a dividend was proposed of AED 3 fils per share to be distributed as bonus share dividends at 3% of share capital and the distribution of cash dividends at AED 16 fils per share, or 16% cash dividends, totalling AED 174.7 million. This is subject to approval at the Annual General Meeting of the Company.

At the Board of Directors meeting held on 30 March 2016, a dividend was proposed of AED 4 fils per share to be distributed as bonus share dividends at 4% of share capital and the distribution of cash dividends at AED 11 fils per share, or 11% cash dividends, totalling AED 115.5 million.

9 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

For management purposes, the Group is organised into business units based on their products and services and the following reportable segments:

(1) Manufacturing
(2) Investments

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

There are no sales between segments during the year.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

10 Related party transactions and balances

Related parties comprise the company's majority shareholders, key management personnel, subsidiaries, associates, directors and other businesses which are controlled directly or indirectly by the 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 Group management, or its Board of Directors.