**GULF PHARMACEUTICAL INDUSTRIES P.S.C.**

**Review report and consolidated interim financial information for the three months period ended 31 March 2015**

**Gulf Pharmaceutical Industries P.S.C.**

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# REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Gulf Pharmaceutical Industries P.S.C.
Ras Al Khaimah
United Arab Emirates

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf Pharmaceutical Industries (a Public Shareholding Company) "the Company" and subsidiaries (the "Group") – Ras Al Khaimah, United Arab Emirates, as at 31 March 2015 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Accounting Standard (IAS) 34, *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*.

Deloitte & Touche (M.E.)

Samir Madbak
Registration No. 386
12 May 2015

Anis Sadek (521), Georges Najem (809), Mohammad Khamees Al Tah (717), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

## Condensed consolidated statement of financial position as at 31 March 2015

| | Note | **31 March 2014 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | **1,089,584** | 1,103,813 |
| Net investment in an associate | 5 | **279,260** | 272,554 |
| Available-for-sale-investments | 6 | **77,969** | 79,355 |
| **Total non-current assets** | | **1,446,813** | 1,455,722 |
| **Current assets** | | | |
| Assets relating to discontinued operations | | **3,859** | 3,859 |
| Inventories | | **373,705** | 419,819 |
| Investments held for trading | 7 | **24,729** | 35,937 |
| Trade and other receivables | 8 | **1,361,866** | 1,212,267 |
| Bank balances and cash | 9 | **144,370** | 120,925 |
| **Total current assets** | | **1,908,529** | 1,792,807 |
| **Total assets** | | **3,355,342** | 3,248,529 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 10 | **1,000,000** | 1,000,000 |
| Statutory reserve | 11 | **531,954** | 531,954 |
| Voluntary reserve | 12 | **184,819** | 184,819 |
| Foreign currency translation reserve | | **(893)** | (793) |
| Cumulative changes on revaluation of investments | | **(2,798)** | (8,308) |
| Retained earnings | | **529,063** | 468,573 |
| Equity attributable to shareholders of the Company | | **2,242,145** | 2,176,245 |
| Non-controlling interest | | **29,553** | 29,860 |
| **Total equity** | | **2,271,698** | 2,206,105 |
| **Non-current liabilities** | | | |
| Provision for employees' end of service indemnity | | **41,746** | 39,697 |
| Bank borrowings | 13 | **279,397** | 263,063 |
| **Total non-current liabilities** | | **321,143** | 302,760 |
| **Current liabilities** | | | |
| Liabilities relating to discontinued operations | | **177** | 177 |
| Unclaimed dividends | | **20,299** | 20,593 |
| Trade payables and accruals | | **268,192** | 278,660 |
| Bank borrowings | 13 | **473,833** | 440,234 |
| **Total current liabilities** | | **762,501** | 739,664 |
| **Total liabilities** | | **1,083,644** | 1,042,424 |
| **Total equity and liabilities** | | **3,355,342** | 3,248,529 |

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**FAISAL BIN SAQR AL QASIMI**
CHAIRMAN

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

## Condensed consolidated statement of income (unaudited)
## for the three months period ended 31 March 2015

| | Note | Three months period ended 31 March | |
|---|---|---|---|
| | | **2015** | 2014 |
| | | **AED'000** | AED'000 |
| Sales | | **397,599** | 393,458 |
| Cost of sales | | **(170,859)** | (156,401) |
| **Gross profit** | | **226,740** | 237,057 |
| Selling and distribution expenses | | **(140,976)** | (153,933) |
| General and administrative expenses | | **(22,042)** | (22,033) |
| Other income | | **3,787** | 3,436 |
| (Loss)/gain from investments and others | | **(646)** | 13,777 |
| Finance costs | | **(6,597)** | (8,161) |
| **Profit for the period** | | **60,266** | 70,143 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **60,490** | 70,623 |
| Non-controlling interest | | **(224)** | (480) |
| | | **60,266** | 70,143 |
| **Basic earnings per share (in UAE fils)** | 14 | **6.0** | 7.4 |

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

## Condensed consolidated statement of comprehensive income (unaudited) for the three months period ended 31 March 2015

| | Three months period ended 31 March | |
|---|---|---|
| | **2015** | 2014 |
| | **AED'000** | AED'000 |
| **Profit for the period** | **60,266** | 70,143 |
| **Other comprehensive income/(loss):** | | |
| ***Items that may be reclassified subsequently to profit or loss:*** | | |
| Change in the fair value of available for sale investments | **3,999** | 3,871 |
| Reclassification adjustment on disposal of available for sale investments | **1,511** | (13,294) |
| Exchange difference on translation of subsidiaries | **(917)** | (350) |
| **Total other comprehensive income/(loss)** | **4,593** | (9,773) |
| **Total comprehensive income for the period** | **64,859** | 60,370 |
| **Attributable to:** | | |
| Equity holders of the Company | **65,900** | 61,107 |
| Non-controlling interest | **(1,041)** | (737) |
| | **64,859** | 60,370 |

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

## Condensed consolidated statement of changes in equity for the three months period ended 31 March 2015

| | Share capital AED'000 | Statutory reserve AED'000 | Voluntary reserve AED'000 | Foreign currency translation reserve AED'000 | Cumulative changes on revaluation of investments AED'000 | Retained earnings AED'000 | Equity attributable to shareholders of the Company AED'000 | Non-controlling interest AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2013 (audited) | 863,156 | 405,737 | 161,290 | 534 | 8,604 | 431,443 | 1,870,764 | 15,898 | 1,886,662 |
| Profit for the three months period ended 31 March 2014 | - | - | - | - | - | 70,623 | 70,623 | (480) | 70,143 |
| Other comprehensive loss for the period | - | - | - | (93) | (9,423) | - | (9,516) | (257) | (9,773) |
| Total comprehensive income for the period | - | - | - | (93) | (9,423) | 70,623 | 61,107 | (737) | 60,370 |
| Movement in non-controlling interest | - | - | - | - | - | - | - | 7,426 | 7,426 |
| Balance at 31 March 2014 (unaudited) | 863,156 | 405,737 | 161,290 | 441 | (819) | 502,066 | 1,931,871 | 22,587 | 1,954,458 |
| Balance at 31 December 2014 (audited) | 1,000,000 | 531,954 | 184,819 | (793) | (8,308) | 468,573 | 2,176,245 | 29,860 | 2,206,105 |
| Profit for the three months period ended 31 March 2015 | - | - | - | - | - | 60,490 | 60,490 | (224) | 60,266 |
| Other comprehensive income for the period | - | - | - | (100) | 5,510 | - | 5,410 | (817) | 4,593 |
| Total comprehensive income for the period | - | - | - | (100) | 5,510 | 60,490 | 65,900 | (1,041) | 64,859 |
| Movement in non-controlling interest | - | - | - | - | - | - | - | 734 | 734 |
| **Balance at 31 March 2015 (unaudited)** | **1,000,000** | **531,954** | **184,819** | **(893)** | **(2,798)** | **529,063** | **2,242,145** | **29,553** | **2,271,698** |

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

## Condensed consolidated statement of cash flows (unaudited) for the three months period ended 31 March 2015

| | Three months period ended 31 March | |
|---|---|---|
| | **2015** | 2014 |
| | **AED'000** | AED'000 |
| **Cash flows from operating activities** | | |
| Profit for the period | **60,266** | 70,143 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **26,027** | 14,612 |
| Loss/(gain) from investments | **7,352** | (13,677) |
| Share of profit from associate | **(6,706)** | - |
| Allowance for doubtful debts | **-** | 2,000 |
| Allowance for slow moving inventories | **-** | 2,000 |
| Finance costs | **6,597** | 8,161 |
| Provision for employees' end of service indemnity | **2,421** | 2,100 |
| **Operating cash flow before changes in operating assets and liabilities** | **95,957** | 85,339 |
| Increase in trade and other receivables | **(149,599)** | (118,015) |
| Decrease/(increase) in inventories | **46,114** | (29,503) |
| Decrease in trade payables and accruals | **(10,468)** | (12,053) |
| Employees' end of service indemnity paid | **(372)** | (297) |
| **Net cash used in operating activities** | **(18,368)** | (74,529) |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | **(11,798)** | (19,668) |
| Purchase of investments | **(60)** | (37,649) |
| Proceeds from sale of investments | **10,812** | 29,606 |
| Increase in fixed deposits due for maturity after 3 months | **-** | (100,000) |
| Increase in non-controlling interest | **734** | 7,426 |
| **Net cash used in investing activities** | **(312)** | (120,285) |
| **Cash flows from financing activities** | | |
| Increase in bank borrowings | **49,933** | 2,287 |
| Advance received | **-** | 100,000 |
| Dividends paid | **(294)** | (98) |
| Finance costs paid | **(6,597)** | (8,161) |
| **Net cash generated from financing activities** | **43,042** | 94,028 |
| **Net increase/ (decrease) in cash and cash equivalents** | **24,362** | (100,786) |
| Effects of exchange rate changes on cash and cash equivalents | **(917)** | (350) |
| Cash and cash equivalents at the beginning of the period | **120,925** | 214,614 |
| **Cash and cash equivalents at the end of the period (Note 9)** | **144,370** | 113,478 |

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

**Notes to the condensed consolidated financial statements**
**for the three months period ended 31 March 2015**

## 1. General

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 30 March 1980 and the Emiri decree No.9/80 on 4 May 1980. The Group comprises Gulf Pharmaceutical Industries (Public Shareholding Company) and its subsidiaries "the Group" (Note 3).

The Company's ordinary shares are listed in Abu Dhabi Securities Exchange.

The Company's registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates.

The main activities of the Group are manufacturing, transporting and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds. The Company commenced its commercial activities effective from November 1984.

## 2. Application of new and revised International Financial Reporting Standards ("IFRSs")

### 2.1 New and revised IFRSs applied with no material effect on the condensed consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these condensed consolidated financial statements. The application of these revised and new IFRSs has not had any material impact on the amounts reported for the current period and prior year but may affect the accounting for future transactions or arrangements.

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| • Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. | 1 July 2014 |
| • Annual improvements to IFRSs 2010 – 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24. | 1 July 2014 |
| • Annual improvements to IFRSs 2011 – 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40. | 1 July 2014 |

## 2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| • IFRS 9 Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.<br><br>IFRS 9 Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.<br><br>Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.<br><br>IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets (2) the classification and measurement requirements for both financial assets and financial liabilities (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015. | 1 January 2018 |
| • IFRS 14 *Regulatory Deferral Accounts* issued in January 2014 specifies the financial reporting requirements for 'regulatory deferral account balance' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. | 1 January 2016 |

## 2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| • IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. | 1 January 2017 |
| • Annual Improvements to IFRSs 2012 – 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19. | 1 January 2016 |
| • Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation. | 1 January 2016 |
| • Amendments to IFRS 11 to clarify accounting for acquisitions of *Interests in Joint Operations*. | 1 January 2016 |
| • Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business. | 1 January 2016 |
| • Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements. | 1 January 2016 |
| • Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities. | 1 January 2016 |
| • Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. | 1 January 2016 |
| • Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16. | 1 January 2016 |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2017 and 1 January 2018 respectively. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

## 3. Summary of significant accounting policies

### 3.1. Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34, "Interim Financial Reporting" and also comply with the applicable requirements of the laws in the U.A.E.

The condensed consolidated financial statements are presented in U.A.E. Dirhams (AED) since that is the currency in which the majority of the Group's transactions are denominated.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as at and for the year ended 31 December 2014. In addition, results for the three months period ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

The accounting policies, presentation and methods used in these condensed consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2014.

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

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2014.

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2014.

As required by the Securities and Commodities Authority ("SCA") notification dated 12 October 2008, accounting policies relating to property, plant and equipment, investment in an associate and investments in securities have been disclosed in the condensed consolidated financial statements.

### 3.2 Property, plant and equipment

Land is stated at cost less impairment loss (if any).

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

## 3. Summary of significant accounting policies (continued)

### 3.2 Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Depreciation is provided on the straight-line method based on the anticipated useful lives, as follows:

| | Years |
|---|---|
| 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 |

### 3.3 Net investment in an associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 3. Summary of significant accounting policies (continued)

### 3.4 Financial assets at fair value through profit and loss (FVTPL)

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

A financial asset is classified as held for trading if:

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

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

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

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

### 3.5 Available for Sale (AFS) financial assets

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value because management considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the cumulative change in fair value of investments with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair value is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

## 3. Summary of significant accounting policies (continued)

### 3.6 Basis of consolidation

The condensed consolidated financial statements comprise the financial information of the Company and its subsidiaries. The financial information of the subsidiaries are consolidated from the acquisition date, which is the date the Company gains control over its subsidiaries, and lasts until the Company loses that control. Control is achieved where the Company has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

All transactions and balances between the Company and its subsidiaries, including income and expenses, are eliminated.

Details of Gulf Pharmaceutical Industries (Public Shareholding Company) subsidiaries as of 31 March 2015 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 |

## 4. Property, plant and equipment

- Property, plant and equipment additions during the current period amounted to AED 11,798,000 (Three months period ended 31 March 2014: AED 19,668,000).
- Depreciation charges for the current period amounted to AED 26,027,000 (Three months period ended 31 March 2014: AED 14,612,000).

**Notes to the condensed consolidated financial statements**
**for the three months period ended 31 March 2015 (continued)**

## 5. Net investment in an associate

Details of the Company's associate are as follows:

| Name of associate | Place of incorporation | Ownership | 31 March 2015 (unaudited) AED'000 | 31 December 2014 (audited) AED'000 |
|---|---|---|---|---|
| Planet Pharmacies L.L.C. | U.A.E | 40% | **279,260** | 272,554 |

Movements in the account of net investment in an associate during the period/year were as follows:

| | Three months period ended 31 March 2015 (unaudited) AED'000 | Year ended 31 December 2014 (audited) AED'000 |
|---|---|---|
| Balance at the beginning of the period/year | **272,554** | 263,316 |
| Share of the associate's profit | **6,706** | 16,062 |
| Less: Dividends received | **-** | (6,824) |
| **Balance at the end of the period/year** | **279,260** | 272,554 |

## 6. Available-for-sale-investments

Movements on available-for-sale-investments were as follows:

| | Three months period ended 31 March 2015 (unaudited) AED'000 | Year ended 31 December 2014 (audited) AED'000 |
|---|---|---|
| Fair value at the beginning of the period/year | **79,355** | 42,591 |
| Purchased during the period/year | **60** | 73,939 |
| Disposals during the period/year | **(5,445)** | (37,525) |
| Net increase in fair value | **3,999** | 350 |
| **Fair value at the end of the period/year** | **77,969** | 79,355 |

## 6. Available-for-sale-investments (continued)

Available-for-sale investments comprise investments in equity shares as follows:

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| *Investments within United Arab Emirates* | | |
| Quoted U.A.E. equity securities | **25,385** | 31,083 |
| Mutual funds | **5,341** | 5,569 |
| Unquoted U.A.E. equity securities | **7,104** | 7,104 |
| | **37,830** | 43,756 |
| *Investments outside United Arab Emirates* | | |
| Quoted equity securities | **21,332** | 16,852 |
| Unquoted equity securities | **18,807** | 18,747 |
| | **40,139** | 35,599 |
| | **77,969** | 79,355 |

**Reclassification of investments**

During the year 2008, the Board of Directors reconsidered its investment strategy and accordingly the Group adopted the amendments to IAS 39 issued by the International Accounting Standards Board which permits an entity to reclassify, in particular circumstances, investments held for trading, for which change in fair value is recognised in the profit or loss, to available-for-sale investments for which the change in the fair value is recognised under equity as cumulative changes in fair values.

| | **Three months period ended 31 March** | |
|---|---|---|
| | **2015 (unaudited) AED'000** | 2014 (unaudited) AED'000 |
| Fair value of reclassified investments as of 1 January (audited) | **18,518** | 22,910 |
| Disposals during the period | **(5,445)** | (10,024) |
| (Loss)/gain on revaluation of available for sale investments during the period | **(265)** | 1,371 |
| Fair value of reclassified investments as of 31 March | **12,808** | 14,257 |

As a result of the above, profit for the period has increased by AED 265,000 (Three months period ended 31 March 2014: decreased by AED 1,371,000).

## 7. Investments held for trading

Movements of investments held for trading were as follows:

| | **Three months period ended 31 March 2015 (unaudited) AED'000** | Year ended 31 December 2014 (audited) AED'000 |
|---|---|---|
| Fair value at the beginning of the period/year | **35,937** | 33,886 |
| Purchased during the period/year | **-** | 72,049 |
| Disposals during the period/year | **(4,957)** | (51,545) |
| Net decrease in fair value | **(6,251)** | (18,453) |
| | **24,729** | 35,937 |

Investments held for trading comprise investments in listed and quoted equity shares in the U.A.E. and G.C.C. financial markets as follows:

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| In U.A.E. markets | **24,591** | 35,799 |
| In other G.C.C. markets | **138** | 138 |
| | **24,729** | 35,937 |

## 8. Trade and other receivables

Trade and other receivables comprise the following:

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| Trade accounts receivable | **1,331,501** | 1,209,459 |
| Less: Allowance for doubtful debts | **(13,555)** | (13,555) |
| | **1,317,946** | 1,195,904 |
| Staff receivable | **2,408** | 2,772 |
| Prepaid expenses | **3,063** | 4,378 |
| Advances to suppliers | **14,747** | 7,543 |
| Advance paid for an investment | **23,120** | - |
| Other receivables | **582** | 1,670 |
| | **1,361,866** | 1,212,267 |

**Notes to the condensed consolidated financial statements**
**for the three months period ended 31 March 2015 (continued)**

## 8. Trade and other receivables (continued)

Movement in the allowance for doubtful receivables during the period/year was as follows:

| | **Three months period ended 31 March 2015 (unaudited) AED'000** | Year ended 31 December 2014 (audited) AED'000 |
|---|---|---|
| Balance at the beginning of the period/year | **13,555** | 12,600 |
| Add: Allowance for doubtful debts | **-** | 2,000 |
| Less: Allowance for doubtful debts written off | **-** | (1,045) |
| Balance at the end of the period/year | **13,555** | 13,555 |

## 9. Bank balances and cash

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| Bank balances: | | |
| Current accounts | **138,001** | 114,516 |
| Fixed deposits | **3,280** | 3,280 |
| Cash in hand | **3,089** | 3,129 |
| **Cash and cash equivalents** | **144,370** | 120,925 |
| **By geographical area:** | | |
| In the U.A.E. | **126,156** | 114,046 |
| In other countries | **18,214** | 6,879 |
| | **144,370** | 120,925 |

The fixed deposits maturity dates range from one to three months from the placement dates.

## 10. Share capital

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| 1,000,000,000 issued and fully paid up ordinary shares (1,000,000,000 ordinary shares as of 31 December 2014) at par value of AED 1 each | **1,000,000** | 1,000,000 |

## 11. Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law No. 8 of 1984, 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.

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

## 12. Voluntary reserve

Appropriations to the voluntary reserve account represents appropriation of 10% of the yearly profit for each year. Appropriations to the voluntary reserve may be stopped as proposed by the Board of Directors and approved by the Shareholders general assembly, or once its balance reaches 20% of the share capital. This reserve is distributable based on a recommendation by the Board of Directors and approval of the Shareholders general assembly.

## 13. Bank borrowings

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| Overdraft | **147,479** | 144,187 |
| Loans | **605,751** | 559,110 |
| | **753,230** | 703,297 |

Bank borrowings shall be repaid as follows:

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| *Current* | | |
| On demand or within one year | **473,833** | 440,234 |
| *Non current* | | |
| In the second year | **160,137** | 135,992 |
| In third to sixth year | **119,260** | 127,071 |
| | **279,397** | 263,063 |
| | **753,230** | 703,297 |

- Overdraft is payable on demand.
- The Group has obtained the loans to finance the expansion and development of the factory and to secure working capital requirements.
- The Group has obtained these banking facilities against assignment of insurance policy covering existing machinery with a bank mortgage clause for AED 210 million, providing promissory notes and maintenance of certain financial ratios as agreed with the respective banks.

## 14. Basic earnings per share

| | Three months period ended 31 March | |
|---|---|---|
| | **2015 (unaudited)** | 2014 (unaudited) |
| Profit for the period (AED'000) | **60,490** | 70,623 |
| Weighted average number of shares (thousand share) | **1,000,000** | 949,471 |
| Basic earning per share (UAE Fils) | **6.0** | 7.4 |

Basic earnings per share for the comparative period was restated to consider the effect of the bonus shares issued during 2014 of 86,315,535 shares.

## 15. Dividends

The Shareholders' Ordinary General Assembly held on 30 April 2015 approved the payment of cash dividends at 15% of share capital amounting to AED 150 million and issuance of bonus shares at 5% of share capital amounting to AED 50 million for the year 2014 (2014: the Shareholders general assembly approved cash dividends at 10% of share capital amounting to AED 86,315,535 and bonus shares at 10% of share capital amounting to AED 86,315,535 for the year 2013).

## 16. Segment information

The Group is organised into two main business segments:

Manufacturing segment which includes the business of selling of various types of medicines and; investments segment which incorporates the results of investments in equity securities, fixed deposits with banks and net investment in an associate.

**Notes to the condensed consolidated financial statements**
**for the three months period ended 31 March 2015 (continued)**

## 16. Segment information

| | **Three months period ended 31 March 2015** | | | Three months period ended 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | **Manufacturing (unaudited) AED'000** | **Investments (unaudited) AED'000** | **Total (unaudited) AED'000** | Manufacturing (unaudited) AED'000 | Investments (unaudited) AED'000 | Total (unaudited) AED'000 |
| **Segment revenue** | **397,599** | **-** | **397,599** | 393,458 | - | 393,458 |
| Segment result | **60,912** | **(646)** | **60,266** | 56,366 | 13,777 | 70,143 |

| | **31 March 2015** | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Manufacturing (unaudited) AED'000** | **Investments (unaudited) AED'000** | **Total (unaudited) AED'000** | Manufacturing (audited) AED'000 | Investments (audited) AED'000 | Total (audited) AED'000 |
| **Segment assets** | **2,829,014** | **385,238** | **3,214,252** | 2,739,758 | 391,126 | 3,130,884 |
| Unallocated assets | | | **141,090** | | | 117,645 |
| Total assets | | | **3,355,342** | | | 3,248,529 |
| **Segment liabilities** | **1,083,644** | **-** | **1,083,644** | 1,042,424 | - | 1,042,424 |

There are no transactions between the business segments.

## 17. Related party balances and transactions

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families or over which they exercise significant management influence as well as key management personnel.

As of the reporting date, due from/ to related parties were included in the trade and other receivables/ trade payables and accruals as follows:

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| Due from related parties (included in trade and other receivables) | **149,540** | 141,235 |
| Due to related parties (included in trade payables and accruals) | **3,724** | 8,517 |

No bank guarantees are received from/ provided to related parties against balances due from/ to them.

No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

**Transactions:**

During the period, the Group entered into the following transactions with related parties:

| | **Three months period ended 31 March** | |
|---|---|---|
| | **2015 (unaudited) AED'000** | 2014 (unaudited) AED'000 |
| Sales to related parties | **38,798** | 67,966 |
| Purchases from related parties | **2,725** | 8,314 |

Transactions with related parties are entered into on terms agreed with management.

***Compensation of board of directors/key management personnel:***

| | **Three months period ended 31 March** | |
|---|---|---|
| | **2015 (unaudited) AED'000** | 2014 (unaudited) AED'000 |
| Short term benefits | **6,832** | 7,009 |
| Long term benefits | **96** | 96 |

## 18. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

**Notes to the condensed consolidated financial statements**
**for the three months period ended 31 March 2015 (continued)**

## 18. Fair value measurements (continued)

*Fair value of financial instruments carried at amortised cost*

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values.

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual consolidated financial statements for the year ended 31 December 2014.

*Fair value of the Group's financial assets that are measured at fair value on recurring basis*

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

| **Financial assets** | **Fair value as at** | | **Fair value hierarchy** | **Valuation techniques and key inputs** | **Significant unobservable input** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|---|---|---|
| | **31 March 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) | | | | |
| Quoted equity investments – AFS | **46,717** | 47,935 | Level 1 | Quoted bid prices in an active market. | None. | NA |
| Mutual funds - AFS | **5,341** | 5,569 | Level 3 | Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information. | Net assets value. | Higher the net assets value of the investees, higher the fair value. |
| Unquoted equity investments – AFS | **25,911** | 25,851 | Level 3 | Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information. | Net assets value. | Higher the net assets value of the investees, higher the fair value. |
| Quoted equity investments – FVTPL | **24,729** | 35,937 | Level 1 | Quoted bid prices in an active market. | None. | NA |

## 18. Fair value measurements (continued)

*Fair value measurements recognised in the condensed consolidated statement of financial position*

The following table provides an analysis of financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**31 March 2015 (unaudited)**

| | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investments held for trading | 24,729 | - | - | 24,729 |
| **Available-for-sale financial assets** | | | | |
| Quoted equities | 46,717 | - | - | 46,717 |
| Mutual funds | - | - | 5,341 | 5,341 |
| Unquoted equities | - | - | 25,911 | 25,911 |
| | **71,446** | **-** | **31,252** | **102,698** |

31 December 2014 (audited)

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Investments held for trading | 35,937 | - | - | 35,937 |
| Available-for-sale financial assets | | | | |
| Quoted equities | 47,935 | - | - | 47,935 |
| Mutual funds | - | - | 5,569 | 5,569 |
| Unquoted equities | - | - | 25,851 | 25,851 |
| | 83,872 | - | 31,420 | 115,292 |

There were no transfers between the levels during the period. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

## 19. Commitments and contingent liabilities

| | **31 March 2015 (unaudited) AED'000** | 31 December 2014 (audited) AED'000 |
|---|---|---|
| Capital commitments | **35,000** | 40,000 |
| Letters of credit | **6,913** | 9,691 |
| Letters of guarantee | **64,186** | 60,433 |

## 20. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated statement of income for the three months period ended 31 March 2015 and 2014.

## 21. Other matters

The Board of Directors has appointed a financial consultant to perform a comprehensive study about the newly recommended business strategy to transfer Julphar Insulin project (which is currently included in the Company's property, plant and equipment) into a separate new company and to offer 49% of its share capital to strategic investors having adequate financial ability or technical experience in the pharmaceutical industry.

## 22. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue on 12 May 2015.