

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022

Report of the Board of Directors

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 as of and ended 31 December 2022.

Financial Performance

Julphar recorded net sales of AED 1,616.1 million, a 41.4% increase against 2021 net sales of AED 1,143.2 million. The Julphar Segment (excluding Planet) generated AED 815.9 million net sales with a growth of 4.9% compared to previous year.

EBITDA from Continuing Operations¹ reaches AED 144.6 million in 2022 compared to a EBITDA from continuing operations of AED 164.8 million in the previous year.

The company generated AED 19.3 million positive Cash Flow from Operating Activities compared to a cash flow of AED 46.2 million in the previous year.

Net debt stood at AED 678.2 million as of 31 December 2022, which is a 21.1% increase compared to previous year. The Net Debt / EBITDA¹ ratio improved to 4.5x.

Furthermore, Julphar’s significant revenue growth continued to reflect the company’s prominence as the region’s top generics pharmaceutical company, supported by the success of its key brands. Throughout the year, Julphar launched new products as part of its 2030 Strategy with implementation well on track, to be followed by a pipeline of more than 100 products in the coming years.

In 2022, the company signed an MOU with the Ministry of Industry and Advanced Technology (MoIAT) to build the Middle East’s first factory to produce the first long-acting biological alternative to insulin.

Moreover, overall contribution from Julphar’s wholly owned subsidiary, Planet Pharmacies, continued to boost the Group’s topline figures and extending the group’s capabilities into the distribution and retail segments of pharmacy healthcare sector across the UAE, KSA and Oman.

Production output increased to 177 million packs during the reporting period, a 24% increase compared to previous year.

Outlook 2023:

The Group will continue its transformation program during 2023 and strengthen the market position in its core markets in MENA. Julphar plans to launch new products addressing existing medical needs with critical pharmaceuticals and life-saving medicines in the MENA region, securing local supply chains and supporting the manufacturing of high-quality products locally by implementing new cutting-edge technologies in line with the UAE government healthcare agenda. Julphar will also explore growth opportunities to increase its presence in North African markets through new product launches as well as local manufacturing partnerships.

The new pipeline initiative will progress to secure the medium-term growth of the Group in addition to exploring geographical expansion opportunities in African markets. New strategic in-licensing partnership will further strengthen the Group’s future group prospects.

Planet Pharmacies will expand its retail pharmacy network in the markets of Unit Arab Emirates and Kingdom of Saudia Arabia through new store opening as well as targeted acquisitions. The Group will work on new projects to generate further synergies between Julphar’s product business and Planet Pharmacies’ retail and wholesale business.

We are confident that all initiated programs will support the ongoing transformation and will position the Julphar Group as one of the leading healthcare groups in Emerging Markets.

¹ EBITDA from Continuing Operations does not include depreciation for assets held for sale in the previous year and finance income and interest on lease liabilities in the current year.



Proposed dividend

Due to accumulated losses incurred by the Group in year and the accumulated losses, the Board has not recommended any dividend declaration to the shareholders of the Company for the year 2022.

Auditors

The independent auditors, Ernst & Young, Dubai have signified their willingness to continue in office. The reappointment and remuneration will be proposed at the Annual General Meeting of the Company.

Acknowledgements

The Board would like to express their gratitude and appreciation to all shareholders, customers and business partners, government agencies, banks and financial institutions and employees, whose continued commitment, support and co-operation has been a great strength and encouragement.

On behalf of the Board,

Sh. Saqer Humaid Al Qasimi
Chairman

2023



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gulf Pharmaceuticals Industries P.S.C. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><u>Revenue Recognition:</u></p> <p>Revenue for the year ended 31 December 2022 amounted to AED 1,616.1 million. Revenue from the sale of goods is recognised upon the transfer of control of the goods to the customer, usually on delivery of goods. The Group uses a variety of shipment terms across (incoterms) its operating markets and this has an impact on the timing of revenue recognition. There is a higher risk that revenue could be recognised in the incorrect period for sales transactions occurring on and around the year end.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the Group's key performance indicators and it involves significant judgement on the timing of the revenue recognition.</p> <p>The group's policy for revenue recognition together with significant accounting estimates and judgments is described in note 3, and in note 4 revenues related disclosures as required by IFRS.</p>	<p>As part of our audit, the procedures to test appropriateness of revenue recognized for the year includes the following:</p> <ul style="list-style-type: none"> ▪ We obtained an understanding of management's internal controls over the revenue process and placed specific attention on the timing of the revenue recognition. We performed walkthroughs to understand the adequacy and the design of the revenue cycle. ▪ We reviewed the revenue recognition policy applied by the Group to ensure its compliance with IFRS requirements. More specifically we reviewed how the incoterms were considered within the revenue recognition process. ▪ We also performed sales cut off procedures by agreeing deliveries before and after year end to supporting documentation to establish that sales and corresponding trade receivables are properly recorded in the correct period. ▪ In addition to substantive analytical procedures performed at the Group level, we performed procedures to understand how the revenue has trended over the year, and performed a detailed testing on transactions around the yearend, ensuring revenues were recognised in the correct accounting period. We also tested journal entries recognised to revenue focusing on unusual or irregular transactions. ▪ We validated the appropriateness and completeness of the related disclosures in note 4 of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><u>Impairment of non-financial assets:</u></p> <p>The Group performed a quantitative and qualitative impairment assessment on its cash generating units (CGUs). Management conducted the impairment test based on its assessment of indicators such as deteriorated operational performance of the CGUs in previous years and continued underutilization of some of the CGUs or assets. These indicators may imply that the carrying value of some of the non-financial assets of the Group might not be fully recoverable. Management identified certain independent CGUs, for the purposes of impairment assessment of the Group. For the CGUs where impairment indicators exist, management estimated the recoverable amounts of the CGUs, being higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU").</p> <p>Given the significant judgments made by management to estimate the recoverable amount of the CGUs, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions required a high degree of auditor judgment. Accordingly, we have identified this to be a key audit matter.</p> <p>Refer to notes 16 and 17 to the consolidated financial statements for the relevant disclosures and note 3.6 for key source of estimation uncertainty.</p>	<p>Our procedures to test the impairment analysis prepared by management of the Group for the identified CGUs included the following:</p> <ul style="list-style-type: none"> ▪ Where impairment indicators exist, we examined the methodology used by management to assess the recoverable amounts of the CGUs to determine its compliance with International Financial Reporting Standards (IFRS); ▪ We evaluated the assumptions used by management of the Group in determining the recoverable amount of the CGUs, including those completed by external valuers, and assessing whether appropriate valuation methodologies have been applied; ▪ We evaluated the reasonableness of management's significant assumptions by comparing it to the (1) the historical operating results of the CGU's and (2) internal communications to management and the Board of Directors; ▪ With the support of our internal valuation specialists we have assessed the appropriateness of Weighted Average Cost of Capital ("WACC") and terminal growth rate used in the determination of cash flow forecast; ▪ We performed sensitivity analyses of significant assumptions used to evaluate the change in the recoverable amount of the CGUs resulting from changes in the inputs and assumptions. We also assessed the historical accuracy of management's projections by comparing it with the actual data; ▪ We evaluated the external valuer's competence, capabilities and objectivity including the scope of the engagement; and ▪ Assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><u>Allowance for slow-moving inventories:</u></p> <p>The gross balance of inventory as at 31 December 2022 is AED 724.3 million, against which provision for slow moving and obsolete inventory amounting to AED 46.7 million was made. The Group assesses the valuation of all inventory items including raw materials, packing materials, work-in process and finished goods at each reporting date. Obsolete, expired, slow-moving and defective inventories are written down to its estimated net realisable value if less than cost.</p> <p>We have considered allowance for slow-moving inventories to be a key audit matter because it requires management's assessment of the estimates of whether a write down is required. Key parameter for the inventory valuation includes expiration dates of the inventory. The measurement of any excess of cost over net realisable value is judgemental considering the involvement of a number of qualitative factors that are affected by market and economic conditions outside the Group's control.</p> <p>Refer to note 3.6 to the consolidated financial statements for the key source of estimation uncertainty, note 18 for inventory disclosure and movement of allowance for slow-moving inventories.</p>	<p>As part of our audit, the procedures to test the management's estimate of allowance for slow-moving and obsolete inventory included the following:</p> <ul style="list-style-type: none"> ▪ We obtained through inquiry an understanding from management and evaluated the design of the internal controls over the Group's process pertaining to inventory valuation and allowance for slow-moving inventories. We also obtained an understanding about the management's assessment of inventory valuation, including the development of forecasted usage of inventories and consideration of how factors outside the Group's control might affect management's judgement related to valuation of slow-moving, expired, obsolete and defective inventory; ▪ We observed the inventory count performed by management's expert and assessed the physical existence and condition of selected samples of the inventories; ▪ We evaluated the significant assumptions taken by the management and tested the completeness of the underlying data used by management to value the slow-moving inventories; ▪ We tested the expiration dates of the inventory for a sample of inventory items based on the product expiration reports and prospective assumptions on their expiries. We compared the provision based on the report with the provision recognised by management; ▪ We tested the valuation of year-end inventory for a sample of selected inventory items, including review of judgements considered regarding obsolescence and net realizable value; and ▪ We also checked that appropriate disclosures have been made in the consolidated financial statements in compliance with the International Financial Reporting Standards.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Directors Report and does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and in compliance with the applicable provisions of the Company's Articles of Association and UAE Federal Law No. 32 of 2021, 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.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF PHARMACEUTICALS INDUSTRIES P.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

- 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 the board of directors 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, actions taken to eliminate threats or safeguards applied.

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 PHARMACEUTICALS INDUSTRIES P.S.C. (continued)**

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. 32 of 2021, we report that for the year ended 31 December 2022:

- i) the Company has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. 32 of 2021;
- iv) the financial information included in the Board of Director's report is consistent with the books of account of the Company;
- v) investments in shares and stocks during the year ended 31 December 2022, if any, are disclosed in notes 19 and 20 to the consolidated financial statements;
- vi) note 29 reflects 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 Company has contravened during financial year ended 31 December 2022, any of the applicable provisions of the UAE Federal Law No. 32 of 2021 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022; and
- viii) note 8 reflects the social contributions made during the year.

For Ernst & Young



Signed by:
Wardah Ebrahim
Partner
Registration No.: 1258

20 March 2023

Sharjah, United Arab Emirates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	2022 AED millions	2021 AED millions
Continuing operations			
Revenue from contracts with customers	4	1,616.1	1,143.2
Cost of revenue	5	(1,117.5)	(759.8)
Gross profit		498.6	383.4
Other income	6	108.3	110.0
Selling and distribution expenses	7	(367.3)	(269.2)
General and administrative expenses	8	(229.0)	(182.7)
Share of loss of an associate	12	-	(31.4)
Loss on remeasurement of previously existing interest of an associate	12	-	(7.9)
Gain on bargain purchase	13	-	59.3
Gain from investments and others		2.0	2.4
Operating profit		12.6	63.9
Finance income	9	3.6	2.4
Finance costs	10	(40.1)	(23.7)
(Loss)/ profit before tax for the year from continuing operations		(23.9)	42.6
Net income tax and zakat expense	11	(2.8)	(1.1)
(Loss)/ profit for the year from continuing operations		(26.7)	41.5
Discontinued operations			
Hyperinflation adjustment on net monetary position	38	(9.5)	-
Profit / (loss) for the year from discontinued operations	14(e)	4.5	(10.1)
Gain on disposal of subsidiaries	14(a)(b) and (c)	-	28.0
		(5.0)	17.9
(LOSS)/ PROFIT FOR THE YEAR		(31.7)	59.4
(Loss)/ profit attributable to:			
Equity holders of the Parent		(29.4)	64.4
Non-controlling interests		(2.3)	(5.0)
		(31.7)	59.4
Earnings per share:			
Basic and diluted			
(Loss)/ profit per share attributable to the equity holders of the Parent (in UAE fils)	15	(2.5)	5.6
Earnings per share for continuing operations:			
Basic and diluted			
(Loss)/ profit per share from continuing operations attributable to the equity holders of the Parent (in UAE fils)	15	(2.3)	3.6

The attached notes 1 to 39 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

		2022 AED millions	2021 AED millions
(Loss)/ profit for the year		(31.7)	59.4
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Currency translation differences of foreign operations		(41.9)	(7.3)
Hyperinflation adjustment relating to discontinued operations	38	16.8	-
Gain/ (loss) on cash flow hedge	36	26.9	(1.5)
Reclassification adjustment to statement of profit or loss	36	1.3	-
		3.1	(8.8)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>			
Net change in fair value of financial asset at fair value through other comprehensive income (FVTOCI)	20	(7.0)	-
Total other comprehensive loss for the year		(3.9)	(8.8)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		(35.6)	50.6
Total comprehensive (loss)/ income attributable to:			
Equity holders of the Parent		(40.2)	55.6
Non-controlling interests		4.6	(5.0)
		(35.6)	50.6

The attached notes 1 to 39 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 AED millions	2021 AED millions
ASSETS			
Non-current assets			
Property, plant and equipment	16	632.4	645.3
Right of use assets	32	119.9	103.7
Intangible assets	17	158.3	177.2
Deferred tax asset	11	0.6	0.5
Derivative financial instrument	36	25.2	-
Financial asset at fair value through other comprehensive income	20	0.3	-
		936.7	926.7
Current assets			
Inventories	18	672.8	653.9
Financial assets at fair value through profit or loss	19	19.5	19.5
Receivable from a divested subsidiary	14(c)	-	61.2
Trade and other receivables	21	643.8	581.9
Bank balances and cash	22	92.3	159.3
		1,428.4	1,475.8
Assets held for sale	14(f)	34.3	23.8
		1,462.7	1,499.6
TOTAL ASSETS		2,399.4	2,426.3
EQUITY AND LIABILITIES			
Equity			
Share capital	23	1,155.3	1,155.3
Statutory reserve	24	185.5	185.5
Foreign currency translation reserve		(192.7)	(160.7)
Cash flow hedging reserve	36	26.7	(1.5)
Fair value reserve	20	(7.0)	-
Accumulated losses		(251.3)	(221.9)
Equity attributable to shareholders of the Parent		916.5	956.7
Non-controlling interests	25	11.7	7.1
Total equity		928.2	963.8

Sh Saqer Humaid Al Qasimi
Chairman

Ignacio Anglada
Chief Financial Officer

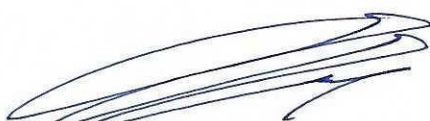
The attached notes 1 to 39 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2022

	Notes	2022 AED millions	2021 AED millions
Non-current liabilities			
Provision for employees' end of service benefits	26	80.9	79.8
Bank and other borrowings	27	712.5	665.0
Deferred tax liability		3.3	4.0
Lease liabilities	32	76.0	67.8
		<u>872.7</u>	<u>816.6</u>
Current liabilities			
Trade payables and accruals	28	487.0	544.2
Income tax and zakat payable		5.9	5.9
Bank and other borrowings	27	58.0	54.4
Derivative financial instrument	37	-	1.5
Lease liabilities	32	39.2	31.9
		<u>590.1</u>	<u>637.9</u>
Liabilities directly associated with the assets held for sale	14(f)	8.4	8.0
		<u>598.5</u>	<u>645.9</u>
Total liabilities		<u>1,471.2</u>	<u>1,462.5</u>
TOTAL EQUITY AND LIABILITIES		<u>2,399.4</u>	<u>2,426.3</u>



Sh Saqer Humaid Al Qasimi
Chairman



Ignacio Anglada
Chief Financial Officer

The attached notes 1 to 39 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	<i>Attributable to the equity holders of the Parent</i>								
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Foreign currency translation reserve</i>	<i>Cashflow hedge reserve</i>	<i>Fair value reserve</i>	<i>Accumulated losses</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>	<i>AED million</i>
As at 1 January 2021	1,155.3	185.5	(160.7)	(1.5)	-	(221.9)	956.7	7.1	963.8
Loss profit for the year	-	-	-	-	-	(29.4)	(29.4)	(2.3)	(31.7)
Other comprehensive (loss)/ income for the year	-	-	(32.0)	28.2	(7.0)	-	(10.8)	6.9	(3.9)
Total comprehensive (loss)/ income for the year	-	-	(32.0)	28.2	(7.0)	(29.4)	(40.2)	4.6	(35.6)
As at 31 December 2022	1,155.3	185.5	(192.7)	26.7	(7.0)	(251.3)	916.5	11.7	928.2

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2022

	<i>Attributable to the equity holders of the Parent</i>						
	<i>Share capital</i> <i>AED</i> <i>million</i>	<i>Statutory reserve</i> <i>AED</i> <i>million</i>	<i>Foreign currency translation reserve</i> <i>AED</i> <i>million</i>	<i>Cashflow hedge reserve</i> <i>AED</i> <i>million</i>	<i>Accumulated losses</i> <i>AED</i> <i>million</i>	<i>Total</i> <i>AED</i> <i>million</i>	<i>Non-controlling interests</i> <i>AED</i> <i>million</i>
As at 1 January 2021	1,155.3	185.5	(146.5)	-	(293.2)	901.1	168.8
(Loss)/ profit for the year	-	-	-	-	64.4	64.4	(5.0)
Other comprehensive income	-	-	(7.3)	(1.5)	-	(8.8)	-
Total comprehensive (loss)/ income for the year	-	-	(7.3)	(1.5)	64.4	55.6	(5.0)
Movement in non-controlling interests (note 25)	-	-	-	-	-	-	1.1
Non-controlling interests derecognised on disposal of subsidiaries (note 25)	-	-	-	-	-	-	(136.5)
Transfer of foreign currency reserve to accumulated losses on disposal of a subsidiary	-	-	(6.9)	-	6.9	-	-
Other movement in non-controlling interests	-	-	-	-	-	-	(21.3)
As at 31 December 2021	1,155.3	185.5	(160.7)	(1.5)	(221.9)	956.7	7.1

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 AED millions	2021 AED millions
OPERATING ACTIVITIES			
(Loss)/ profit before tax for the year before tax from continuing operations		(23.9)	42.6
(Loss)/ profit for the year from discontinued operations before tax	14(e)	(3.2)	17.9
		<hr/>	<hr/>
(Loss)/ profit before tax for the year		(27.1)	60.5
Adjustments for:			
Depreciation of property, plant and equipment	16(b)	76.3	75.9
Depreciation of right of use asset	32	36.9	17.8
Amortisation of intangible assets	17	18.8	11.1
Share of loss from investment in an associate	12	-	31.4
Gain on bargain purchase	13(a)	-	(59.3)
Loss on remeasurement of previously existing interest of an associate	12	-	7.9
Liabilities written back	6	(39.0)	(65.9)
Gain on disposal of subsidiaries	14(a)(b)(c)	-	(28.0)
Allowance for slow-moving inventories	18(a)	24.0	16.4
Allowance for expected credit loss on receivables	21(a)	7.0	2.0
Provision for employees' end of service benefits	26	13.5	10.5
Hyperinflation adjustment	38	9.5	-
Receivable from a divested subsidiary written off		9.8	-
Loss on disposal of property, plant and equipment		0.1	-
Gain on rent concession	6	-	(2.3)
Finance income	9	(3.6)	(2.4)
Finance costs	10	40.1	24.1
		<hr/>	<hr/>
		166.3	99.7
Changes in working capital			
Trade and other receivables		(68.9)	349.8
Inventories		(42.9)	(72.3)
Trade payables, accruals and deferred revenue		(18.2)	(322.4)
		<hr/>	<hr/>
Cash used from operations		36.3	54.8
Employees' end of service benefits paid	26	(12.4)	(8.6)
Income tax and zakat paid		(4.6)	-
		<hr/>	<hr/>
Net cash flows from operating activities		19.3	46.2
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(63.7)	(44.4)
Purchase of intangible assets	17	(1.7)	-
Proceeds from sale of financial asset at FVTPL		-	0.2
Consideration paid for acquisition of interest in a subsidiary - net	13(c)	-	(126.5)
Deposits having maturities after three months and less than one year		10.4	(16.3)
Finance income received		3.6	2.4
Proceeds from divestment of subsidiaries		51.4	144.8
Purchase of quoted equity investments at FVTOCI	20	(7.3)	-
		<hr/>	<hr/>
Net cash flows used in investing activities		(7.3)	(39.8)
		<hr/>	<hr/>

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2022

		2022 AED millions	2021 AED millions
FINANCING ACTIVITIES			
Proceeds from bank borrowings	27(e)	85.0	665.0
Repayment of bank borrowings	27(e)	(33.9)	(550.0)
Increase in non-controlling interest	25(b)	-	1.1
Repayment of lease liabilities	32	(42.8)	(23.9)
Interest paid		(34.6)	(22.1)
Net cash (used in)/ from financing activities		(26.3)	70.1
NET (DECREASE)/ INCREASE IN BANK BALANCES AND CASH		(14.3)	76.5
Currency translation differences		(42.3)	(7.2)
Bank balances and cash at 1 January		143.0	73.7
BANK BALANCES AND CASH AT 31 DECEMBER	22	86.4	143.0

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

1. ACTIVITIES

Gulf Pharmaceutical Industries P.S.C is a public shareholding company (the “Company” or “Parent 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 Company’s registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates (UAE). The Company commenced its commercial activities effective from November 1984. The Company’s ordinary shares are listed on the Abu Dhabi Securities Exchange.

The principal activities of the Company and its subsidiaries (the “Group” or “Julphar”) are the manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds.

Information on the Group’s structure is provided in note 2.

The consolidated financial statements were authorised for issue in accordance with the resolution of the Board of Directors on 20 March 2023.

2. GROUP INFORMATION

These consolidated financial statements reflect the operations of the Group as at 31 December 2022. By virtue of shareholders and other agreements, the Company holds directly or indirectly (through nominees) a controlling interest and has the power to govern the financial and operating policies in each of the subsidiaries listed below (collectively referred to as the "Group" and individually referred to as "Group Entities"):

Serial No.	Name of subsidiary	Country of Incorporation	Percentage of Ownership		Subsidiary activity
			2022	2021	
Direct subsidiaries					
1.	Mena Cool Transportation F.Z.E.	United Arab Emirates	100%	100%	Transportation
2.	Julphar Pharmaceuticals P.L.C. (note (b))	Ethiopia	55%	55%	Manufacturing medicines
3.	Julphar SES L.L.C. (note (a))	Egypt	99.8%	99.8%	General trading
4.	Julphar Diabetes L.L.C. (note (a))	United Arab Emirates	100%	100%	Manufacturing medicines
5.	Julphar Company for Trading and Distribution L.L.C. (note (a))	Egypt	99.8%	99.8%	General trading
6.	Mena Cool Machinery Trading (note (a))	United Arab Emirates	100%	100%	General trading
7.	Julphar Life L.L.C. (note (a))	United Arab Emirates	100%	100%	General trading
8.	Julphar Pakistan Private Limited (note (a), (d) and (e))	Pakistan	-	100%	Distributor of Julphar’s products in Pakistan
9.	Julphar Tunisie (note (a))	Tunisia	99%	99%	Distributor of Julphar’s products in Tunisia

2. GROUP INFORMATION (continued)*Direct subsidiaries (continued)*

<i>Serial No.</i>	<i>Name of subsidiary</i>	<i>Country of Incorporation</i>	<i>Percentage of Ownership</i>		<i>Subsidiary activity</i>
			<i>2022</i>	<i>2021</i>	
10.	Julphar Pharmaceuticals Limited (note (a))	Gulf Kenya	100%	100%	Distributor of Julphar's products in Kenya
11.	Planet Pharmacies L.L.C (note (c))	United Arab Emirates	100%	100%	Distribution, wholesale and retail trading of medicines and cosmetic products.

*Indirect subsidiaries**Subsidiary of Mena Cool Machinery Trading*

1.	Julphar General Trading L.L.C. (note (a) and (d))	United Arab Emirates	100%	100%	General trading
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Subsidiary of Julphar Company for Trading and Distribution L.L.C.

1.	Julphar Egypt Company L.L.C. (note (d))	Egypt	100%	100%	Distributors of Julphar's products in Egypt
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Subsidiary of Julphar Egypt Company L.L.C.

1.	Julphar Plus (note (a) and (d))	Egypt	100%	100%	Manufacturing and distribution of medicines
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Subsidiaries of Planet Pharmacies L.L.C.

1.	Julphar Drug Store Sharjah	United Arab Emirates	100%	100%	Trading in medicines and medical equipment
2.	Julphar Drug Store LLC (Abu Dhabi)	United Arab Emirates	100%	100%	Trading in medicines and medical equipment
3.	Awafi Drug Store	United Arab Emirates	100%	100%	Trading in medicines and medical equipment
4.	Julphar Healthy Services	United Arab Emirates	100%	100%	Facilities management services, health treatment undertaking services and hospitals management
5.	Health First Investment LLC	United Arab Emirates	100%	100%	Investment in commercial, industrial, and healthcare enterprises and their management
6.	Health First Pharmacy LLC (Abu Dhabi)	United Arab Emirates	100%	100%	Trading in medicines and medical equipment
7.	Kawakeb Al Saydaliyat Company LLC	Kingdom of Saudi Arabia	100%	100%	Trading in medicines and medical equipment

2. GROUP INFORMATION (continued)*Indirect subsidiaries (continued)**Subsidiaries of Planet Pharmacies L.L.C.(continued)*

Serial No.	Name of subsidiary	Country of Incorporation	Percentage of Ownership		Subsidiary activity
			2022	2021	
8.	Planet Pharmacies LLC	Sultanate of Oman	100%	100%	Trading in medicines and medical equipment
9.	Future Medical Co. Ltd	Sultanate of Oman	100%	100%	Trading in medicines and medical equipment

Subsidiaries of Julphar Healthy Services

1.	Scientific Pharmacy LLC	Sultanate of Oman	100%	100%	Trading in medicines and medical equipment
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Subsidiaries of Health First Investment LLC

1.	Masafi Pharmacy (note (g))	United Arab Emirates	-	100%	Trading in medicines and medical equipment
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Subsidiary of Kawakeb Al Saydaliyat Company LLC

1.	Zahrat Al Rawdah Pharmacies Limited Liability Company	Kingdom of Saudi Arabia	100%	100%	Retail and wholesale trading in medicines and cosmetics
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Subsidiaries of Zahrat Al Rawdah Pharmacies Limited Liability Company

1.	Rawdah Jeddah Medical Establishment (note (g))	Kingdom of Saudi Arabia	-	100%	Retail and wholesale trading in medicines and cosmetics
2.	Shahaad Zahrat Al Rawdah (note (g))	Kingdom of Saudi Arabia	-	100%	Retail and wholesale trading in medicines and cosmetics
3.	Rukan Zahrat Al Rawdah Pharmacy Establishment	Kingdom of Saudi Arabia	100%	100%	Retail and wholesale trading in medicines and cosmetics
4.	Rahiq Zahrat Al Rawdah Pharmacy Establishment	Kingdom of Saudi Arabia	100%	100%	Retail and wholesale trading in medicines and cosmetics

- a) These subsidiaries are not operational, and the financial results are immaterial to the overall consolidated financial statements of the Group.
- b) During the year 2021, management has classified the subsidiary as a disposal group held for sale (note 14(c)). As of the reporting date, the sale of the subsidiary has not been completed and the sale is expected to be completed during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2. GROUP INFORMATION (continued)

- c) During the year 2021, the Parent Company purchased the remaining 60% shareholding in Planet Pharmacies L.L.C (“Planet”) from M/s Pharma SPV Ltd and accordingly with effect from 1 July 2021 the results of Planet are consolidated in the consolidated financial statements (note 13(a)).
- d) Certain % of the Group’s ownership stake in these entities is held through beneficial ownership arrangement with the legal owner.
- e) During the year ended 31 December 2022, the Parent Company disposed of 100% of its shareholding in the subsidiary. Since the subsidiary was not operational, the financial impact of the disposal of the subsidiary is immaterial to the overall consolidated financial statements of the Group.
- f) During the year ended 31 December 2021, the Parent Company sold its shareholding of 100%, 50.5% and 51% in M/s Gulf Inject LLC, M/s Julphar Bangladesh Limited and M/s Alpha Pharma L.L.C., respectively.
- g) These Companies were closed during the year ended 31 December 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is the Parent Company’s functional currency and presentation currency of the consolidated financial statements. All values are rounded to the nearest million except where otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for financial assets measured at fair value through profit or loss (note 19) and fair value through other comprehensive income (note 20) and derivative financial instruments measured at fair value (note 37).

The consolidated financial statements provide comparative information in respect of the previous period.

3.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Law No. 32 of 2021.

3.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.3 Basis of consolidation (continued)**

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

3.4 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022 as mentioned below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These new standards and interpretations are disclosed below.

a) *New and amended standards effective for annual period beginning on or after 1 January 2022*

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

The amendments and interpretations apply for the first time in 2022, but do not have any material impact on the consolidated financial statements of the Group.

b) *Standards issued but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The management is currently assessing the impact of adopting the below standards, amendments and interpretations on the Group's consolidated financial statements in the period of their initial application and intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (effective from annual periods beginning on or after 1 January 2024 and must be applied retrospectively)
- Definition of Accounting Estimates - Amendments to IAS 8 (effective from annual periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective from annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Changes in accounting policies and disclosures (continued)

b) Standards issued but not yet effective (continued)

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments must be applied prospectively. Early application is still permitted and must be disclosed)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023)
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed.)

3.5 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets, including those assets that meet the definition of, and recognition criteria for intangible assets in IAS 38, and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss (note 13(a)).

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

For the business combination achieved in stages, the Group is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate (note 13).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Acquisition of controlling interest in an entity that is not a business

When the Group acquires controlling interest in an entity that is not considered a business, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for intangible assets in IAS 38) and liabilities assumed. Asset or a group of assets that does not constitute a business is recognised at cost, which is the amount of consideration paid or payable, plus any non-controlling interest recognised related to that asset or a group of assets. The cost of the Group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Acquisition of an asset or a group of assets that does not constitute a business does not give rise to goodwill or gain on bargain purchase.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Fair value measurement

The Group measures financial instruments such as financial assets at fair value through profit or loss, and non-financial assets such as a disposal group held for sale, at fair value at each statement of financial position date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosure for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in note 34.

Revenue from contracts with customers

The Group is in the business of manufacturing and selling of medicines, drugs and various other types of pharmaceutical and medical compounds in addition to cosmetic compounds. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the medicines at the customer's location.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration.

Variable consideration

If the variable consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Contracts with the sale of goods provide customers with a right to return the goods when the goods actually expire. The rights of return give rise to variable consideration.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Rights of return

The Group uses the expected value method to estimate the variable consideration. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer in relation to non-pharmaceutical items.

Volume rebates

The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price).

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in note 3.6.

Loyalty discounts

Some of the Group's subsidiaries have a loyalty programme for retail customers which allows customers to accumulate discounts on every purchase that can be redeemed against goods and services. The loyalty discounts give rise to a separate performance obligation as they provide a material right to the customer.

Customer option that provides a material right

Free goods

Free goods are issued to customers as sales incentives. The free goods give rise to a separate performance obligation as they provide a material right to the customer that the customer would not receive without entering into that contract.

A portion of the transaction price is allocated to the separate performance obligation based on relative stand-alone selling price and recognised as deferred revenue until the free goods are provided. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

Contract balances

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Assets and liabilities arising from rights of return

Rights of return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Interest income

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

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives as follows:

	<i>Life</i>
Buildings	10 to 25 years
Plant and machinery	3 to 17 years
Installations	4 to 25 years
Motor vehicles	3 to 10 years
Furniture and fixtures	4 to 10 years
Tools and equipment	3 to 10 years
Leasehold improvements	4 to 25 years

Capital work-in-progress is not depreciated and 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 Group's policy.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised upon disposal (i.e., at the date of the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

Research and development costs

Research and development costs are charged to the consolidated statement of profit or loss in the period in which they are incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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 recognised 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.

Trade names

Trade names acquired are recognised initially at fair value. Trade names are assessed to have an indefinite useful life and are assessed for impairment at least on an annual basis.

Customer and supplier relations

Customer and supplier relations represent the value attributed to the long-term relationships held with existing customers and suppliers at the date of acquisition and are amortised over their useful economic life. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 10 years and 15.5 years for customer relations and supplier relations respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.5 Summary of significant accounting policies (continued)****Intangible assets (continued)***Hospital relations*

Hospital relations represent the value attributed to the relationships with the hospitals and clinics for managing and operating the pharmacies within the hospitals and clinics. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 4.5 years.

Loyalty program

Loyalty program is operated by the Group to generate a base of customers to provide the Group with repeat sales over the forecast period. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 6.5 years.

Computer Software

Acquired computer software is capitalized and it amortised using the straight-line basis over the useful life of 3 years.

	<i>Useful lives</i>	<i>Amortisation method</i>	<i>Internally generated or acquired</i>
Licenses and permits	5 to 20 years	Amortised on a straight-line basis	Acquired
Trade name	Infinite	No amortisation	Acquired
Customer and supplier relations	10 to 15.5 years	Amortised on a straight-line basis	Acquired
Hospital relations	4.5 years	Amortised on a straight-line basis	Acquired
Loyalty program	6.5 years	Amortised on a straight-line basis	Acquired
Computer software	3 years	Amortised on a straight-line basis	Acquired

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials and packing materials: purchase cost on weighted average basis; and
- Finished goods and work-in-progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

Inventories are initially valued at standard cost, which approximates to historical cost determined on a weighted average basis. At the reporting date, the management determines the variances between the actual cost and the standard cost of the inventory items and recognise the variances within the cost of goods sold.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw materials and packing materials held for use in the production of inventories are not written down below cost if the final finished goods in which they are to be used is expected to be sold at or above cost.

The Group reviews the inventory quantities on hand and recognises a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, discontinued, defective due to quality issues, damaged, if they become obsolete, expired, or if their selling prices or estimated forecast of product demand decline. If actual market conditions are less favourable than previously projected, or if liquidation of the inventory which is no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions are recognised.

Goods-in-transit

Goods-in-transit are valued at purchase price, freight value and other charges incurred thereon up to the reporting date.

Spare parts and consumables

Spare parts and consumables that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment and are integral to the functionality of the related equipment are capitalised and amortised as part of that equipment when used. In all other cases, spare parts and consumables are carried as inventory and recognised in the consolidated statement of profit or loss as consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.5 Summary of significant accounting policies (continued)****Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Leases*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows.

	<i>Life</i>
Offices and pharmacies	1 to 10 years

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Leases (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include bank balances, trade receivables other receivables, receivable from a divested subsidiary and financial assets at fair value through profit or loss and financial assets fair value through other comprehensive income.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's bank balances, trade receivables and other receivables and receivable from a divested subsidiary are financial assets measured at amortised cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes an unquoted investment which the Group had not irrevocably elected to classify at fair value through OCI.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Dividends on investments are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as investment income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investment under this category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected credit losses are recognised in the consolidated statement of comprehensive income.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade payables and accruals, bank borrowings and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

The Group has no financial liability classified at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

This category generally applies to bank borrowings, trade payables, accruals and lease liabilities.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Bank balances and cash

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, bank balances and cash consist of cash and short-term deposits.

Employee's end of service benefits

Employees' benefits to non-UAE nationals' employees

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.

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 profit or loss in accordance with the provisions of the applicable law. The Group has no further payment obligations once the contribution has been paid. The Group has categorized the contribution policy as defined contribution plan.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Zakat

Zakat is calculated by the Group in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of profit or loss. Differences, if any, resulting from the final assessments are adjusted in the year of their finalisation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Effective 1 January 2022, on adoption of IAS 29, the financial statements of the subsidiary, having operations in Ethiopia, has been adjusted for the effects of inflation as per the requirements of IAS 29. Hence, the subsidiary's assets, liabilities, income and expenses are expressed in AED using exchange rates prevailing at the reporting date. Refer to note 38 for the details.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Summary of significant accounting policies (continued)

Non-current assets held for sale and discontinued operations (continued)

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured and presented in the consolidated statement of profit or loss net of any reimbursement.

Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of UAE, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Contingencies

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

3.6 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

Spare parts and consumables as inventory

The Group has determined that it has very large number of minor items of spare parts and consumables and concluded that these items are recognised as inventory. These are expensed out when consumed.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Determining the lease term of contracts with renewal and termination options – Group as lessee (continued)

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Assets held for sale

During the years ended 31 December 2022 and 2021, the Group has classified its 55% of shareholding of Julphar Pharmaceutical PLC (“Julphar Ethiopia”) as assets held for sale. The Board considered the subsidiary to meet the criteria to be classified as held for sale at that date for the following reasons:

- Julphar Ethiopia is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage

For more details on discontinued operations refer note 14.

Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed, and information is provided to the management. The information considered included:

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

Distinguishing between business combination and acquisition of an asset or a group of assets

The Group distinguishes a transaction or other event as business combination i.e. obtaining control of one or more businesses, and acquisition of an asset or a group of assets, based on management's judgement on whether a particular set of assets and activities consist of inputs and processes applied to those inputs, which together are or will be used to create outputs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Provision for stock losses

The Group's management determines the amount of provision for stock as follows:

1. Raw materials - Raw materials with near expiry are assessed for use in the production or for any alternative options. If the raw materials are deemed not to be usable, provision for expiry is recorded in the consolidated statement of financial position.
2. Packaging materials - Packaging materials which are for discontinued products or inactive are assessed for any other alternative options. If the packaging materials are deemed not to be usable, provision is recorded in the consolidated statement of financial position.
3. Finished Goods - Finished goods with less than 1 year shelf life are deemed not to be usable or sold in the market as per Ministry regulations. Full provision for finished goods with less than 1 year shelf life is recorded in the consolidated statement of financial position.
4. Other inventories – Includes goods in transit, consumables, work-in-progress, and spare parts are assessed for obsolescence or for any other alternative uses. If these are deemed not to be usable/obsolete, provision is recorded in the consolidated statement of financial position.

At the reporting date, provision for stock losses were AED 46.7 million (2021: AED 55.7 million) (note 18). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the dividend growth mode (DGM). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculations are based on available data from binding sales transactions, for similar assets or observable market prices less incremental costs of disposing of the asset and using cost approach adjusted for obsolescence that market participant buyers would consider. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The Group's management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the Group's management believes the useful lives differ from previous estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Provision for expected credit losses on financial assets

When measuring ECL, probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Operation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Estimating sales return liability

The Group estimates the sales return liability based on historic data of past 3 years by analysing sales return on a monthly basis and by using a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the sales return liability.

Estimating volume rebates

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Group applied the statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected volume rebates quarterly and the rebates accruals are adjusted accordingly. Estimates of volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of customers' actual rebate entitlements in the future. As at 31 December 2022, the amount recognised as accruals for the volume rebates was AED 18.7 million (2021: AED 23.3 million).

Estimating the incremental borrowing rate for lease

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs (such as market interest rates etc.) when available and is required to make certain entity-specific estimates (such as the Group's economic environment).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.6 Significant accounting judgements, estimates and assumptions (continued)****Estimates and assumptions (continued)*****Useful lives of intangible assets***

The Group's management estimates the useful lives of intangible assets based on the period during which the assets are expected to be available for use and also estimates their recoverability to assess if there has been an impairment. The amounts and timing of recorded expenses for amortization and impairments of intangible assets for any period are affected by these estimates. The estimates are reviewed at least annually and are updated if expectations change as a result of commercial obsolescence, generic threats and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's intangible assets in the future.

Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiary is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the consolidated financial statements of a Group becomes necessary. Following management's assessment, the Group's subsidiary, operating in Ethiopia have been accounted for as entities operating in hyperinflationary economies. The results, cash flows and financial positions of Ethiopian subsidiary have been expressed in terms of the measuring units current at the reporting date.

The economy of Ethiopia was assessed to be hyperinflationary during 2022, and hence hyperinflation accounting has been applied.

The cumulative impact of adjusting the Group's results for the effects of hyperinflation is set out in note 38.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS**4.1 Disaggregated revenue information**

	2022 AED millions	2021 AED millions
Gross sales	1,667.7	1,208.6
Less: commission	(35.1)	(40.6)
Net Sales	1,632.6	1,168.0
Less: net sales relating to discontinued operations (note 14(e))	(16.5)	(24.8)
	1,616.1	1,143.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)**4.1 Disaggregated revenue information (continued)**

The Group derives its revenue from sale of medicines, drugs and various other types of pharmaceuticals and medical compounds in addition to cosmetic compounds. The revenue is recognised on the basis of at “point in time” revenue recognition criteria. The geographical split of gross revenue is as follows:

	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
Geographic information		
UAE	573.2	356.3
Other GCC countries	632.5	330.9
Other countries	426.9	480.8
	<u>1,632.6</u>	<u>1,168.0</u>
Less: net sales relating to discontinued operations (note 14(e))	<u>(16.5)</u>	<u>(24.8)</u>
	<u><u>1,616.1</u></u>	<u><u>1,143.2</u></u>

4.2 Contract balances

	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
Contract assets		
Trade receivables (note 21)	553.3	477.0
	<u><u>553.3</u></u>	<u><u>477.0</u></u>
	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
Contract liabilities		
Refund liabilities (note 28)	51.2	34.5
Rebate and accruals (note 28)	18.7	23.3
Advances from customers (note 28)	1.5	8.5
Commissions payable (note 28)	30.6	39.0
	<u>102.0</u>	<u>105.3</u>
	<u><u>102.0</u></u>	<u><u>105.3</u></u>

4.3 Performance obligations

The performance obligation on sales of goods is satisfied upon delivery and payment is generally due within 6 to 12 months from delivery.

The Group generally grants its customers the right of return within a period of 14 days from the date of purchase only for non-medicine items in retail sales. However, the Group does not record a provision for sales returns in retail sales as these returns are insignificant to overall consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

5. COST OF REVENUE

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Raw materials consumed and third-party purchases	848.4	526.1
Salaries and wages	109.7	101.7
Depreciation of property, plant and equipment (note 16)	62.5	63.5
Consumption of laboratory items	63.3	55.8
Electricity and water	29.1	27.2
Others	13.4	7.3
	1,126.4	781.6
Less: cost of sales relating to discontinued operations (note 14(e))	(8.9)	(21.8)
	1,117.5	759.8

6. OTHER INCOME

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Liabilities written back (note below and note 21(b))	39.0	65.9
Retail space listing income	49.3	27.5
Cafeteria operating income	1.3	1.3
Exchange gain	0.2	0.7
Rent concession (note 32)	-	2.3
Other income	18.5	19.4
	108.3	117.1
Less: other income relating to discontinued operations (note 14(e))	-	(7.1)
	108.3	110.0

In 2022 and 2021, the Company has written off certain liabilities which are no longer required.

In 2021, the associate of the Parent Company waived its rights in relation to the bonus goods and other compensations. As a result, the Group released accruals in the amount of AED 32.8 million on the write back of liabilities. In addition, the Parent Company recorded its 40% share of loss of the associate company which resulted in nil impact in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

7. SELLING AND DISTRIBUTION EXPENSES

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Salaries, wages and related expenditures	186.9	154.6
Advertisement and promotion	64.5	29.6
Research and development expenditures	20.7	14.2
Freight charges	19.7	16.9
Rent expense (note 32)	17.1	7.7
Scrapping	16.6	5.2
Sales expenses	7.5	10.6
Marketing materials	5.4	2.3
Product registration	4.5	3.9
Depreciation of property, plant and equipment (note 16)	2.4	2.2
Penalties on sales	-	8.3
Others	22.7	17.2
	368.0	272.7
Less: selling and distribution expenses relating to discontinued operations (note 14(e))	(0.7)	(3.5)
	367.3	269.2

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Salaries, wages and related expenditures	88.6	83.8
Depreciation of right of use assets (note 32)	36.9	17.8
Legal and professional	22.1	20.2
Amortisation of intangible assets (note 17)	18.8	11.1
Depreciation of property, plant and equipment (note 16)	11.4	10.2
Value added tax expense	5.5	9.5
Utilities	9.5	5.6
Services	2.8	4.5
Bank charges and commission	3.9	4.0
Transportation and visa charges	2.6	2.5
Loss on exchange	1.6	1.8
Technical know-how	-	0.5
Others	25.9	24.9
	229.6	196.4
Less: general and administrative expenses relating to discontinued operations (note 14(e))	(0.6)	(13.7)
	229.0	182.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

9. FINANCE INCOME

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Interest income on fixed deposits	3.6	2.5
Less: finance income relating to discontinued operations (note 14(e))	-	(0.1)
	3.6	2.4

10. FINANCE COSTS

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Interest on bank overdraft	0.7	3.3
Interest on lease liabilities (note 32)	5.5	2.4
Interest on bank and other loans	32.6	18.4
Amortisation of time value of money relating to interest rate cap (note 36)	1.3	-
	40.1	24.1
Less: finance cost relating to discontinued operations (note 14(e))	-	(0.4)
	40.1	23.7

11. INCOME TAX AND ZAKAT

The major components of income tax expense for the years ended 31 December 2022 and 2021 are:

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Current income tax		
Current year	5.3	3.3
Deferred tax (credit) / charge		
Current year (credit) / charge	(0.7)	0.5
Total income tax charge/(credit) reported in the consolidated statement of profit or loss	4.6	3.8
Less: income tax and zakat expense relating to discontinued operations (note 14(e))	(1.8)	(2.7)
	2.8	1.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

11. INCOME TAX AND ZAKAT (continued)

Components of deferred tax are as follows:

	2022 AED millions	2021 AED millions
Difference in accounting and tax base of intangible assets	14.2	20.9
Deferred tax liability	3.3	4.0
Deferred tax asset mainly on account temporary differences	0.6	0.5
Total deferred tax liabilities, net	(2.7)	(3.5)

A significant part of the Group's operations are carried out in non taxable jurisdictions and presently the Group's operations in the UAE are not subject to corporation tax. However, the Group's operations in other countries including Egypt, Kingdom of Saudi Arabia, Sultanate of Oman and Ethiopia are subject to taxation at the rates applicable in the respective countries.

12. INVESTMENT IN AN ASSOCIATE

- a) On 8 July 2021, the Parent Company purchased the remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet"), which is engaged in the distribution, wholesale and retail trading of medicines and cosmetic products in UAE, KSA and Oman, thereby obtaining a 100% shareholding and control of Planet (note 13). As a result of the 100% acquisition of Planet by Julphar, Planet has become one of the guarantors to the lenders under the AED 1.01billion Debt Restructuring Facility and is bound by terms of the facility. Planet signed the Guarantor Accession Deed in this respect on 20 October 2021 because of which Planet agrees to perform all obligations expressed to be assumed by a guarantor under the facility (note 27(b)(i)).

- b) Movements in the account of net investment in an associate during the year were as follows:

	2022 AED millions	2021 AED millions
Balance at the beginning of the year	-	270.6
Share of associate's consolidated (loss)/profit for the period from 1 January to 30 June	-	(31.4)
Loss on remeasurement of previously existing interest of an associate (note 12(c))	-	(7.9)
Investment in an associate derecognized on obtaining control (note 13(a))	-	(231.3)
At the end of the year	-	-

- c) The Parent Company's investment in Planet was revalued at AED 231.3 million as at 1 July 2021 resulting in an impairment loss of AED 7.9 million as compared to its carrying value of AED 239.2 as of that date. Thereafter the investment in an associate was derecognized and it was consolidated in these consolidated financial statements with effect from 1 July 2022 (note 13(a)).

13. BUSINESS COMBINATION

- a) **Acquisition of additional shareholding Planet Pharmacies L.L.C**

On 8 July 2021, the Parent Company purchased remaining 60% shareholding in Planet Pharmacies L.L.C ("Planet") at a consideration of AED 286 million, thereby obtaining 100% shareholding and control in Planet.

13. BUSINESS COMBINATION (continued)**a) Acquisition of additional shareholding Planet Pharmacies L.L.C (continued)**

This further acquisition of 60% shareholding was made as part of strategic efforts to further increase shareholder value by extending Julphar's existing manufacturing and marketing capabilities into the distribution and retail segments across UAE, KSA and Oman. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Planet for the 12 months period (compared to 6 months period from the acquisition date (i.e. 1 July 2021) in 2021).

The purchase of remaining 60% shareholding in Planet resulted in the gain on bargain purchase of AED 59.3 million as follows:

	<i>AED millions</i>
Acquisition-date fair values of identifiable net assets acquired (note 13(b))	576.6
Purchase consideration transferred (note 13(c))	(286.0)
Acquisition-date fair value of initial 40% interest (note 12(d))	(231.3)
Gain on bargain purchase	59.3

b) Assets acquired and liabilities assumed

i) The fair values of the identifiable assets and liabilities of Planet as at the date of acquisition were:

	<i>Fair value recognized on acquisition AED millions</i>
Assets	
Property, plant and equipment (note 16)	21.0
Right of use assets (note 32)	109.1
Intangible assets (note 17)	173.3
Deferred tax asset	0.5
Inventories	309.2
Trade and other receivables	403.7
Bank balances and cash	159.5
	1,176.3
Liabilities	
Provision for employees' end of service benefits (note 26)	20.4
Deferred tax liability	1.4
Lease liabilities (note 32)	112.6
Trade payables and accruals	462.9
Bank borrowings (note 27(c))	2.4
	599.7
Total identifiable net assets at fair value	576.6

ii) The fair value of the intangible assets acquired has been completed during the year ended 31 December 2022. Thus, net assets recognised on provisional assessment on acquisition date are not materially different from the acquisition date fair value. Accordingly, no adjustment to the gain on bargain purchase is required to be made in the consolidated statement of profit or loss.

iii) In 2021, from the date of acquisition, Planet contributed AED 444.2 million of revenue and AED 22.2 million to profit before tax from continuing operations of the Group. If the business combination had taken place at the beginning of the year, revenue from continuing operations would have been AED 893.9 million and profit before tax from continuing operations for the Group would have been AED 72.8 million (before consolidation eliminations).

13. BUSINESS COMBINATION (continued)**c) Analysis of cashflows on acquisition**

	<i>AED millions</i>
Net cash acquired with the subsidiary	159.5
Consideration paid for acquisition of additional interest	(286.0)
Net cash flow on acquisition	(126.5)

14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS**a) Gulf Inject L.L.C.**

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Gulf Inject L.L.C. ("Gulf Inject"), a wholly owned subsidiary.

During the year ended 31 December 2021, the Group entered into a Sale & Purchase Agreement with respect to its investment in Gulf Inject. The legal formalities relating to the disposal of Gulf Inject have been fulfilled and the sale of Gulf Inject was completed during the year ended 31 December 2021. Accordingly, a gain of AED 19.0 million was recorded by the Group on the derecognition.

With Gulf Inject being classified as a discontinued operation, the results of Gulf Inject has not been presented in the segment information (note 31) for the year ended 31 December 2021.

The net cash flows generated/ (incurred) by Gulf Inject are as follows:

	<i>2022 AED millions</i>	<i>2021 AED millions</i>
Operating	-	10.3
Investing	-	(9.1)
Financing	-	(0.1)
Net cash inflow	-	1.1

* Represents eight months of activity prior to the sale on 31 August 2021.

Basic and diluted (loss)/ profit per share

Basic and diluted (loss)/ profit per share is disclosed in note 15.

b) Julphar Bangladesh Limited

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Julphar Bangladesh Limited ("Julphar Bangladesh"). The Company owns 50.5% of Julphar Bangladesh.

During the year ended 31 December 2020, the Group entered into a Sale & Purchase Agreement with respect to its investment in Julphar Bangladesh. The legal formalities relating to the disposal of Julphar Bangladesh have been fulfilled and the sale of Julphar Bangladesh was completed during the year ended 31 December 2021. Accordingly, a gain of AED 0.5 million was recorded by the Group on the derecognition.

With Julphar Bangladesh being classified as a discontinued operation, the results of Julphar Bangladesh has not been presented in the segment information (note 31) for the year ended 31 December 2021.

14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)**b) Julphar Bangladesh Limited (continued)**

The net cash flows generated by Julphar Bangladesh are as follows:

	2022 AED millions	2021* AED millions
Operating	-	0.1
Investing	-	(0.1)
Net cash inflow	-	-

** Represents three months of activity prior to the sale on 31 March 2021.*

Basic and diluted (loss)/ profit per share

Basic and diluted (loss)/ profit per share is disclosed in note 15.

c) Alpha Pharma L.L.C

On 9 May 2021, a Sale and Purchase Agreement (“SPA”) was entered into, whereby the Group agreed to sell its 51% shareholding in Alpha Pharma L.L.C. (“Alpha Pharma”) to Cigalah.

The legal formalities relating to the disposal of Alpha Pharma which included amongst other things obtaining the approval from the General Authority for Competition (“GPA”) in the Kingdom of Saudi Arabia (“KSA”) was received during the current period. The other legal formalities have been fulfilled on 19 May 2022. The completion of these legal formalities concludes the transfer of control of Alpha Pharma to Cigalah. The related carrying values of net assets and non-controlling interests of Alpha Pharma were derecognized during the year 2021 as the management believed that these legal formalities did not preclude control having been transferred to Cigalah.. Accordingly, a gain of AED 8.5 million was recognized by the Group on the derecognition during 2021.

With Alpha Pharma being classified as a discontinued operation, the results of Alpha Pharma have not been presented in the segment information (note 31) for the year ended 31 December 2021.

The net cash flows (incurred)/generated by Alpha Pharma are as follows:

	2022* AED millions	2021* AED millions
Operating	-	(7.0)
Financing	-	15.4
Net cash inflow	-	8.4

**Represents four months of activity prior to the sale on 9 May 2021.*

Basic and diluted (loss)/ profit per share

Basic and diluted (loss)/ profit per share is disclosed in note 15.

d) Julphar Pharmaceuticals P.L.C.

During the year ended 31 December 2021, the Board of Directors of the Company decided to sell Julphar Pharmaceuticals P.L.C. (“Julphar Ethiopia”). The sale of Julphar Ethiopia is expected to be completed within a year from the reporting date. As at 31 December 2022, the Board of Directors has renewed its intention to sell Julphar Ethiopia. Accordingly, Julphar Ethiopia has been classified as a disposal group held for sale and as a discontinued operation.

With Julphar Ethiopia being classified as a discontinued operation, the results of Julphar Ethiopia has not been presented in the segment information (note 31). There was no write-down of carrying amount immediately before and after the classification of the disposal group as held for sale. The comparative consolidated statement of comprehensive income of the Group has been represented to show the discontinued operation of Julphar Ethiopia separately from continuing operations in 2022 and 2021.

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14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)**d) Julphar Pharmaceuticals P.L.C. (continued)**

The net cash flows incurred by Julphar Ethiopia are as follows:

	2022 AED millions	2021 AED millions
Operating	8.7	(0.1)
Investing	-	(0.4)
Financing	(0.2)	(0.1)
Net cash outflow	8.5	(0.6)

Basic and diluted (loss)/ profit per share

Basic and diluted (loss)/ profit per share is disclosed in note 15.

e) The results of the discontinued operation for the year are presented below:

	<i>For the year ended</i> <i>31 December 2022</i>	<i>For the year ended 31 December 2021</i>				
	<i>Julphar</i> <i>Pharmaceuticals</i> <i>PLC</i> <i>AED</i> <i>millions</i>	<i>Gulf</i> <i>Inject</i> <i>LLC***</i> <i>AED</i> <i>millions</i>	<i>Julphar</i> <i>Bangladesh</i> <i>Limited**</i> <i>AED</i> <i>millions</i>	<i>Alpha</i> <i>Pharma</i> <i>LLC*</i> <i>AED</i> <i>millions</i>	<i>Julphar</i> <i>Pharmaceuticals</i> <i>PLC</i> <i>AED</i> <i>millions</i>	<i>Total</i> <i>AED</i> <i>millions</i>
Revenue from contracts with customers	16.5	12.0	1.8	1.3	9.7	24.8
Cost of sales	(8.9)	(8.8)	(1.0)	(6.1)	(5.9)	(21.8)
GROSS PROFIT	7.6	3.2	0.8	(4.8)	3.8	3.0
Other income	-	3.1	3.6	0.3	0.1	7.1
Selling and distribution expenses	(0.7)	(1.1)	(2.0)	(0.2)	(0.2)	(3.5)
General and administrative expenses	(0.6)	(0.2)	-	(12.4)	(1.1)	(13.7)
Impairment of financial asset	-	-	-	-	-	-
OPERATING PROFIT/(LOSS)	6.3	5.0	2.4	(17.1)	2.6	(7.1)
Finance income	-	0.1	-	-	-	0.1
Finance costs	-	(0.1)	(0.2)	(0.1)	-	(0.4)
(LOSS)/PROFIT BEFORE TAX FOR THE PERIOD FROM DISCONTINUED OPERATIONS	6.3	5.0	2.2	(17.2)	2.6	(7.4)
Income tax	(1.8)	-	-	(1.9)	(0.8)	(2.7)
PROFIT/(LOSS) FOR THE PERIOD FROM DISCONTINUED OPERATIONS	4.5	5.0	2.2	(19.1)	1.8	(10.1)
Profit/(loss) attributable to:						
Equity holders of the Parent	2.5	5.0	1.1	(12.2)	1.0	(5.1)
Non-controlling interests	2.0	-	1.1	(6.9)	0.8	(5.0)
	4.5	5.0	2.2	(19.1)	1.8	(10.1)

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14. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

e) The results of the discontinued operation for the year are presented below (continued):

**Represents four months of activity prior to the sale on 9 May 2022.*

***Represents three months of activity prior to the sale on 31 March 2022.*

****Represents eight months of activity prior to the sale on 31 August 2022.*

There was no amount included in the accumulated other comprehensive income and reserves related to the disposal group at the date of the classification as held for sale.

f) The major classes of assets and liabilities of the disposal group classified as held for sale as at 31 December 2022 are as follows:

	2022 Julphar Pharmaceuticals PLC AED millions	2021 Julphar Pharmaceuticals PLC AED millions
ASSETS		
Property, plant and equipment	9.6	3.5
Inventories	4.8	6.8
Trade and other receivables	2.9	3.8
Bank balances and cash	17.0	9.7
Assets held for sale	34.3	23.8
LIABILITIES		
Trade payables and accruals	6.8	8.0
Income tax and zakat payable	1.6	-
Liabilities directly associated with assets held for sale	8.4	8.0
Net assets directly associated with assets held for sale	25.9	15.8
Less: net assets attributable to non-controlling interests (note 35)	(11.7)	(7.1)
Group's share of net assets directly associated with disposal group	14.2	8.7

15. BASIC/ DILUTED (LOSS)/ PROFIT PER SHARE (EPS)

a) Basic EPS is calculated by dividing the (loss)/ profit for the year attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year

	2022 AED millions	2021 AED millions
(Loss)/ profit for the year attributable to the equity holders of the Parent:		
Continuing operations	(26.6)	41.5
Discontinued operations	(2.8)	22.9
(Loss)/ profit for the year attributable to the equity holders of the Parent	(29.4)	64.4
Weighted average number of shares	1,155.3	1,155.3

15. BASIC/ DILUTED (LOSS)/ PROFIT PER SHARE (EPS) (continued)

- a) Basic EPS is calculated by dividing the (loss)/ profit for the year attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year (continued)

	2022 AED millions	2021 AED millions
Basic (loss)/ profit per share attributable to the equity holders of the Parent (in UAE fils)	<u>(2.5)</u>	<u>5.6</u>
Basic (loss)/ profit per share from continuing operations attributable to the equity holders of the Parent (in UAE fils)	<u>(2.3)</u>	<u>3.6</u>

- b) To calculate EPS for discontinued operations, the weighted average number of shares is as per the table above. The following table provides the profit amount used:

	2022 AED millions	2021 AED millions
(Loss) / profit for the year attributable to the equity holders of the Parent from discontinued operations	<u>(2.8)</u>	<u>22.9</u>
Basic (loss) / profit per share from discontinued operations attributable to the equity holders of the Parent (in UAE fils)	<u>(0.2)</u>	<u>2.0</u>

- c) The Group does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.

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16. PROPERTY PLANT AND EQUIPMENT

	<i>Land AED millions</i>	<i>Buildings AED millions</i>	<i>Plant and machinery AED millions</i>	<i>Installations AED millions</i>	<i>Motor vehicles AED millions</i>	<i>Furniture and fixtures AED millions</i>	<i>Tools and equipment AED millions</i>	<i>Leasehold improvements AED millions</i>	<i>Capital - work-in progress AED millions</i>	<i>Total AED millions</i>
Cost										
At 1 January 2021	43.9	623.9	1,156.4	131.1	30.7	17.2	20.8	9.3	3.8	2,037.1
Additions	-	-	18.8	0.2	0.3	5.6	1.0	1.2	17.3	44.4
Transfer from CWIP	-	-	0.4	0.2	-	0.3	-	-	(0.9)	-
Acquired on business combination (note 13(b)(i))	-	-	-	-	1.2	10.2	5.6	3.0	1.0	21.0
Reclassified to assets held for sale (note 14(d))	(0.2)	(1.9)	(5.7)	-	(0.4)	(0.1)	(1.2)	-	(0.7)	(10.2)
Derecognized on disposal of a subsidiary	(15.4)	(156.4)	(86.2)	-	(0.3)	(3.2)	(3.5)	-	-	(265.0)
Transfers	(24.6)	40.5	-	(0.7)	0.1	-	(15.3)	-	-	-
Exchange differences	-	(0.5)	(1.4)	-	(0.1)	-	(0.3)	-	(0.2)	(2.5)
At 31 December 2021	3.7	505.6	1,082.3	130.8	31.5	30.0	7.1	13.5	20.3	1,824.8
Additions	-	2.1	12.4	2.3	2.8	12.0	2.8	6.4	22.9	63.7
Transfer from CWIP	-	0.4	6.6	3.8	0.1	0.7	0.1	-	(11.7)	-
Disposals	-	-	-	-	(0.4)	-	-	-	(0.1)	(0.5)
Write offs	-	-	-	-	-	(1.8)	(0.2)	(0.2)	-	(2.2)
Exchange differences	-	-	(0.1)	-	-	-	-	-	-	(0.1)
At 31 December 2022	3.7	508.1	1,101.2	136.9	34.0	40.9	9.8	19.7	31.4	1,885.7

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16. PROPERTY PLANT AND EQUIPMENT (continued)

	<i>Land AED millions</i>	<i>Buildings AED millions</i>	<i>Plant and machinery AED millions</i>	<i>Installations AED millions</i>	<i>Motor vehicles AED millions</i>	<i>Furniture and fixtures AED millions</i>	<i>Tools and equipment AED millions</i>	<i>Leasehold improvements AED millions</i>	<i>Capital - work-in progress AED millions</i>	<i>Total AED millions</i>
Depreciation and impairment										
At 1 January 2021	-	258.0	701.5	117.5	30.6	16.7	2.9	8.6	-	1,135.8
Charge for the year (note (b))	-	20.2	48.1	3.6	0.4	1.9	1.0	0.7	-	75.9
Reclassified to assets held for sale (note 14(d))	-	(0.8)	(4.6)	-	(0.3)	(0.1)	(0.9)	-	-	(6.7)
Derecognized on disposal of a subsidiary	-	(11.1)	(9.7)	-	(0.3)	(1.0)	(1.9)	-	-	(24.0)
Exchange differences	-	(0.1)	(1.2)	-	-	-	(0.2)	-	-	(1.5)
At 31 December 2021	-	266.2	734.1	121.1	30.4	17.5	0.9	9.3	-	1,179.5
Charge for the year (note (b))	-	17.5	45.7	3.4	0.8	3.2	2.4	3.3	-	76.3
Disposals	-	-	-	-	(0.4)	-	-	-	-	(0.4)
Write offs	-	-	-	-	-	(1.7)	(0.2)	(0.2)	-	(2.1)
At 31 December 2022	-	283.7	779.8	124.5	30.8	19.0	3.1	12.4	-	1,253.3
Net book value:										
At 31 December 2022	3.7	224.4	321.4	12.4	3.2	21.9	6.7	7.3	31.4	632.4
At 31 December 2021	3.7	239.4	348.2	9.7	1.1	12.5	6.2	4.2	20.3	645.3

16. PROPERTY PLANT AND EQUIPMENT (continued)

- a) Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 27).
- b) The above depreciation charge has been allocated in the consolidated statement of income as follows:

	2022 AED millions	2021 AED millions
Cost of sales (note 5)	62.5	63.5
General and administrative expenses (note 8)	11.4	10.2
Selling and distribution expenses (note 7)	2.4	2.2
	76.3	75.9

- c) The factory and its related buildings of the Parent Company are constructed on plots of land amounting to AED 3.7 million (2021: AED 3.7 million) which are owned by the Government of Ras Al Khaimah.
- d) Capital work-in-progress mainly includes significant modification/enhancement of plant of the Parent Company.

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17. INTANGIBLE ASSETS

	<i>Licenses and permits AED millions</i>	<i>Trade name (note (a)) AED millions</i>	<i>Supplier relations AED millions</i>	<i>Customers relations AED millions</i>	<i>Loyalty program AED millions</i>	<i>Hospital relations AED millions</i>	<i>Others AED millions</i>	<i>Total AED millions</i>
Cost:								
At 1 January 2021	33.4	-	-	-	-	-	7.7	41.1
Acquired on business combination (note 13(b)(i))	-	53.2	26.8	35.6	22.2	35.5	-	173.3
At 31 December 2021	33.4	53.2	26.8	35.6	22.2	35.5	7.7	214.4
Additions	1.7	-	-	-	-	-	-	1.7
At 31 December 2022	35.1	53.2	26.8	35.6	22.2	35.5	7.7	216.1
Accumulated amortisation:								
At 1 January 2021	18.5	-	-	-	-	-	7.6	26.1
Charge for the year (note 8)	2.8	-	0.9	1.8	1.7	3.9	-	11.1
At 31 December 2021	21.3	-	0.9	1.8	1.7	3.9	7.6	37.2
Charge for the year (note 8)	2.1	-	1.7	3.6	3.4	7.9	0.1	18.8
Foreign currency translation difference	1.8	-	-	-	-	-	-	1.8
At 31 December 2022	25.2	-	2.6	5.4	5.1	11.8	7.7	57.8
Net book value:								
At 31 December 2022	9.9	53.2	24.2	30.2	17.1	23.7	-	158.3
At 31 December 2021	12.1	53.2	25.9	33.8	20.5	31.6	0.1	177.2

- a) In 2021, the Group acquired an additional 60% in Planet Pharmacies LLC ("Planet") and the Group consequently recognised certain trade names with an indefinite useful life. An impairment test was performed by management in compliance with the standards wherein any indefinite life intangible asset is tested for impairment irrespective of whether there is any indication of impairment as at reporting date.

Impairment testing of trade name

Impairment testing of the trade name was conducted at the level of the asset itself. The recoverable amount was determined based on the fair value of the trade name calculated using the relief from royalty method using the revenue generated from the trade name.

Key assumptions

	2022	2021
Royalty rate	1.75%	1.75%
Maintenance fee	5%	5%
Growth rate	7%	2.9% to 3.3%
Terminal year growth rate	2.4% to 5.2%	2.7% to 3.8%
Discount rate	14.1% to 18.1%	13.5% to 17.5%

Sensitivity to changes in key assumptions

Management believes that any reasonably possible changes in key assumptions used to determine the recoverable amount will not result in any impairment of the trade name.

Management has adequately evaluated its future cash flows and other key assumptions, and believes that the likelihood of the carrying value of the CGU exceeding their recoverable amounts is remote.

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18. INVENTORIES

	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
Raw materials (note (b))	134.2	146.8
Packing materials (note (b))	60.4	64.0
Work-in-progress	14.5	16.4
Finished goods	439.9	420.6
Goods in transit	1.3	9.0
Consumables	32.0	18.6
Spare parts	42.0	41.0
	724.3	716.4
Less: provision for stock losses (note (a))	(46.7)	(55.7)
	677.6	660.7
Less: inventories attributable to assets held for sale (note 14(f))	(4.8)	(6.8)
	672.8	653.9

a) The movement in the Group's provision for stock losses is as follows:

	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
At 1 January	55.7	56.0
Charge during the year	24.0	16.4
Written-off during the year	(33.0)	(38.4)
Acquired on business combination during the year	-	21.7
At 31 December	46.7	55.7

b) Includes raw materials and packing materials amounting to AED 0.2 million (2021: AED 5.8 million) held by a third party.

c) Inventories charged to cost of sales amounted to AED 848.4 million (2021: AED 526.1 million) (note 5).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The financial asset at fair value through profit or loss is denominated in AED and is held for trading in the UAE market amounting to AED 19.5 million (2021: AED 19.5 million).

Movements in financial assets at fair value through profit and loss are as follows:

	<i>2022</i> <i>AED</i> <i>millions</i>	<i>2021</i> <i>AED</i> <i>millions</i>
At 1 January	19.5	19.7
Disposals during the year	-	(0.2)
	19.5	19.5

Investment in unquoted equity security represents investment in an entity which is engaged in manufacturing of packing materials. The Group has 7.25% equity investment in the entity. Management has performed a valuation and recorded the investment at fair value. Fair value has been computed using dividend growth model (31 December 2021: dividend growth model). They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (note 34).

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20. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

	<i>2022 AED millions</i>	<i>2021 AED millions</i>
Fair value of financial assets at FVTOCI	0.3	-

Movements in fair value of financial asset at FVTOCI during the year are as follows:

	<i>2022 AED millions</i>	<i>2021 AED millions</i>
Fair value at the beginning of the year	-	-
Additions during the year	7.3	-
Unrealized loss on revaluation for the year	(7.0)	-
	0.3	-

During the year ended 31 December 2022, the Group recognized a negative fair value reserve of AED 7.0 million (2021: AED nil).

Investment in quoted equity security represents investment in an entity which is engaged in development of innovative medicines to combat cardiovascular diseases. The Group holds non-controlling interests of 2.2% in the entity. The investment was irrevocably designated at fair value through OCI as the Group considers the investment to be strategic in nature. They are classified as level 1 fair values in the fair value hierarchy (note 34).

21. TRADE AND OTHER RECEIVABLES

	<i>2022 AED millions</i>	<i>2021 AED millions</i>
Trade receivables	731.9	649.4
Less: allowance for expected credit losses (note (a))	(178.6)	(172.4)
	553.3	477.0
Advances to suppliers	42.4	49.5
Prepayments	16.2	9.5
Rebates, commission and discount receivable from suppliers	2.1	2.5
Value added tax receivable	21.1	13.3
Other receivables	11.6	33.9
	646.7	585.7
Less: trade and other receivables attributable to assets held for sale (note 14(f))	(2.9)	(3.8)
	643.8	581.9

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21. TRADE AND OTHER RECEIVABLES (continued)

- a) Movement in the provision for expected credit losses during the year was as follows:

	2022 AED millions	2021 AED millions
At 1 January	172.4	417.8
Charge for the year	7.0	2.0
Written off during the year	(0.8)	(292.2)
Acquired on business combination during the year	-	44.8
At end of the year	178.6	172.4

- b) During 2018, the Saudi Food and Drug Authority (SFDA) had imposed a temporary suspension to export the Parent Company's products to the Kingdom of Saudi Arabia (KSA). The Company deals with an exclusive distributor in KSA and therefore all products sold in KSA are exported to that distributor. As a consequence of this ban, the trading activities between the Parent Company and its Saudi distributor had diminished significantly. Furthermore, the respective receivable ageing had deteriorated and therefore, in 2018 management booked a provision amounting to AED 287.1 million related to receivable balances outstanding from this distributor.

During the year 2021, the management of the Parent Company negotiated with the distributor for the settlement of outstanding balances. On settlement with the Saudi distributor, the management of the Parent Company has netted off all trade receivables and liabilities balances up to 31 May 2021 and has written back the related provisions (note 6).

- c) Information regarding trade receivable is given credit risk (note 33).
- d) A provision has been made for the estimated impairment amounts of trade receivables of AED 178.6 million (2021: AED 172.4 million). This provision has been determined based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.
- e) The ageing analysis of trade receivables is as follows:

	2022 AED millions	2021 AED millions
0 – 180 days	534.4	452.4
181 – 365 days	58.8	17.8
More than 365 days	138.7	179.2
	731.9	649.4

- f) The Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The carrying amounts of the Group's trade and other receivables are denominated in AED, USD and EGP.
- g) The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. The other classes within trade and other receivables do not contain impaired assets.

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22. BANK BALANCES AND CASH

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Current accounts	99.0	148.2
Short term bank deposits	7.0	17.4
Cash in hand	3.3	3.4
	109.3	169.0
Less: Bank balances and cash attributable to assets held for sale (note 14(f))	(17.0)	(9.7)
Bank balances and cash	92.3	159.3
Less: term deposits having maturities after three months and less than one year	(5.9)	(16.3)
Bank balances and cash	86.4	143.0

Term deposits carry interest at commercial rates.

23. SHARE CAPITAL

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
<i>Authorised, issued and fully paid</i>		
1,155,227,811 ordinary shares (2021: 1,155,227,811 ordinary shares at par value of AED 1)	1,155.3	1,155.3

24. STATUTORY RESERVE

In accordance with United Arab Emirates Federal Commercial Companies Law No. 32 of 2021, the Parent Company has established a statutory reserve by appropriation of 10% of profit for each year. As the Company had accumulated losses as at 31 December 2022, therefore, no additional appropriation has been made in the statutory reserve. This reserve is not available for distribution except in the circumstances stipulated by the law.

25. NON-CONTROLLING INTERESTS

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Non-controlling interests	11.7	7.1

During the year ended 31 December 2021, the minority party in one of the Group's divested subsidiary in the Kingdom of Saudi Arabia had injected capital amounting to AED 1.1 million. There were no such transactions in the current year.

Further, during the year ended 31 December 2021, the non-controlling interests of the Group's subsidiaries, Julphar Bangladesh and Alpha Pharma amounting to AED 136.5 million, were derecognised on account of disposal of subsidiaries. There were no such transactions in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

26. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision for employees' end of service indemnity is as follows:

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
At 1 January	79.8	59.4
Provided during the year	13.5	10.5
Paid during the year	(12.4)	(8.6)
Derecognized on disposal of subsidiary	-	(1.9)
Acquired on business combination during the year (note 13(b)(i))	-	20.4
At 31 December	80.9	79.8

27. BANK AND OTHER BORROWINGS

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Current interest bearing bank borrowings		
Bank overdraft	20.5	-
Trust receipts	-	54.4
Term loans – current portion	37.5	-
Total current interest bearing loans and borrowings	58.0	54.4
Non-current interest bearing bank borrowings		
Term loan	712.5	665.0
Total interest bearing bank borrowings	770.5	719.4

- a) During the year ended 30 December 2021, the Parent Company entered into a syndicated loan arrangement with a consortium of local banks. The total syndicated facility comprises of Ijarah Term Loan Facility of AED 150 million, Conventional Working Capital Finance Facility of AED 260 million and Conventional Facility of AED 600 million with total facility size of AED 1.01 billion. As of the reporting date, the Company had an undrawn facility of AED 214.5 million (2021: AED 295.3 million). The drawdown term loan of AED 750.0 million (AED 150 million from Ijarah Facility and AED 600 million from Conventional Facility) as of the reporting date is payable in quarterly instalments starting from 30 July 2023.

The Group has obtained AED 1.01 billion banking facilities against the following securities:

- Negative pledge over all assets except or otherwise specified as permitted assets.
- Assignment of insurance policy over its business and assets (including Secured Assets and the assets that represent Ijara Assets from time to time).
- Assignment of receivables of key customers upto 75% and undertaking to route them annually through Obligor's collection account with the Bank.
- General Mortgage over Property, Plant & Equipment and Inventory.
- Corporate guarantee of a subsidiary (note 13(a))

The Group's syndicated loan agreement is subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Group is in compliance with such covenants at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27. BANK AND OTHER BORROWINGS (continued)

b) Bank overdraft and trust receipts are repayable on demand/agreed payment dates. In general, such banking facilities are renewable on a regular basis. Both of these facilities were obtained as part of the AED 1.01 billion facility. Interest on overdrafts are computed and added to the account on a monthly basis.

c) Movement in borrowings is as follows:

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
At the beginning of the year	719.4	611.8
Less: loans repaid during the year	(33.9)	(550.0)
Add: new drawdowns	85.0	665.0
Add: acquired on business combination (note 13(b)(i))	-	2.4
Less: derecognised on disposal of subsidiary	-	(9.8)
At the end of the year	770.5	719.4

28. TRADE PAYABLES AND ACCRUALS

	2022 AED <i>millions</i>	2021 AED <i>millions</i>
Accounts payable	272.7	283.3
Refund liabilities (note 4)	51.2	34.5
Accrued expenses	44.2	53.2
Commissions payable (note 4)	30.6	39.0
Rebate and accruals	18.7	23.3
Unclaimed dividend	14.7	14.8
Employee benefits payable	21.4	35.9
Real estate transaction tax	-	3.2
Advances from customers (note 4)	1.5	8.5
Others	38.8	56.5
	493.8	552.2
Less: trade payables and accruals attributable to liability directly associated to assets held for sale (note 14(f))	(6.8)	(8.0)
	487.0	544.2

29. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise the Company's major 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. Pricing policies and terms of these transactions are approved by the Group's management, or its Board of Directors.

Transactions with related parties under common ownership and management control are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

29. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**a) Related party transactions**

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business as per mutually agreed terms:

	2022 AED millions	2021 AED millions
Sales to associate	-	56.4
Other income	-	32.8

b) Compensation of key management personnel of the Group

The remuneration of the key management personnel of the Group is as follows:

	2022 AED millions	2021 AED millions
Short-term benefits	10.4	11.8
Post-employment and other long-term benefits	2.5	-
	12.9	11.8

30. COMMITMENTS AND CONTINGENT LIABILITIES

	2022 AED millions	2021 AED millions
Capital commitments	18.4	23.2
Letters of credit	27.7	17.3
Letters of guarantee	26.5	36.3

31. SEGMENT INFORMATION

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

- a. Manufacturing
- b. Planet
- c. Investments
- d. Others

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.

The Board of Directors is also provided with multiple levels of information which comprise of revenue, gross profit and net profit, aggregated for higher level components (i.e. combination of all products and services) by distribution and by region.

The financial accounting system of the Group is currently configured in this manner and this information is readily available. However, for decision making purposes, the Board of Directors rely mainly on the revenue and net profit information that contains lower level components. Hence, the segment information provided is primarily to the net profit level of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

31. SEGMENT INFORMATION (continued)

	2022					2021				
	<i>Manufacturing AED millions</i>	<i>Planet AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>	<i>Manufacturing AED millions</i>	<i>Planet AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>
Segment revenue	610.8	1,005.3	-	-	1,616.1	699.0	444.2	-	-	1,143.2
Segment result	(44.0)	51.8	2.0	(36.5)	(26.7)	77.9	13.9	(29.0)	(21.3)	41.5
Depreciation expense of property, plant and equipment	67.1	9.2	-	-	76.3	73.0	2.9	-	-	75.9
Depreciation expense of right of use assets	0.2	36.7	-	-	36.9	-	17.8	-	-	17.8
Amortization expense	2.2	16.6	-	-	18.8	2.8	8.3	-	-	11.1
Share of associate's loss	-	-	-	-	-	-	-	(31.4)	-	(31.4)
	2022					2021				
	<i>Manufacturing AED millions</i>	<i>Planet AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>	<i>Manufacturing AED millions</i>	<i>Planet AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>
Segment assets	961.4	1,291.6	19.8	92.3	2,365.1	1,002.1	1,221.6	19.5	159.3	2,402.5
Segment liabilities	298.8	393.5	-	770.5	1,462.8	359.5	375.6	-	719.4	1,454.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

31. SEGMENT INFORMATION (continued)*Information by geographical region*

In accordance with IFRS 8, non-current assets below are based on the geographical location in which the Group holds assets. In accordance with IFRS 8, the non-current assets reported below exclude financial instruments.

	2022				
	<i>Total AED millions</i>	<i>UAE AED millions</i>	<i>Oman AED millions</i>	<i>Saudi Arabia AED millions</i>	<i>Others AED millions</i>
Non-current assets					
Property, plant and equipment	632.4	603.9	3.1	25.3	0.1
Right of use assets	119.9	28.5	10.3	80.9	0.2
Intangible assets	158.3	69.0	9.2	74.1	6.0
Revenue	1,616.1	573.2	126.9	202.4	713.6
	2021				
	<i>Total AED millions</i>	<i>UAE AED millions</i>	<i>Oman AED millions</i>	<i>Saudi Arabia AED millions</i>	<i>Others AED millions</i>
Non-current assets					
Property, plant and equipment	645.3	632.1	3.1	10.1	-
Right of use assets	103.7	36.5	10.3	56.5	0.4
Intangible assets	177.2	70.4	9.4	85.4	12.0
Revenue	1,143.2	356.3	45.1	131.6	610.2

The Group's sales to top 2 customers individually are more than 10% of the total external sales. Total amount of sales for the year ended 31 December 2022 to these customers amounts to AED 382.3 million (2021: Top 2 customers AED 272.4 million). These revenues are included under manufacturing segment.

There are no other non-current assets included in "Others" which are more than 10% of the total segment non-current assets. There are no sales in "Others" in 2022 (2021: Iraq amounting to AED 108.7 million) which is more than 10% of the total sales.

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At 31 December 2022

32. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for various offices and pharmacies. Leases generally have lease terms between 1 year and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movement during the year are as follow:

	2022 AED millions	2021 AED millions
At 1 January	103.7	-
Acquired on business combination (note 13(b)(i))	-	109.1
Additions	68.3	12.8
Remeasurement	(1.2)	2.6
Disposals	(14.0)	(3.0)
Depreciation (note 8)	(36.9)	(17.8)
	119.9	103.7

Set out below are the carrying amounts of lease liabilities and the movement during the year are as follow:

	2022 AED millions	2021 AED millions
At 1 January	99.7	-
Acquired on business combination (note 13(b)(i))	-	112.6
Additions	68.3	11.5
Remeasurement	(1.2)	2.6
Rent concession (note 6)	-	(2.3)
Accretion of interest (note 10)	5.5	2.4
Disposals	(14.3)	(3.2)
Payments	(42.8)	(23.9)
	115.2	99.7
Classified in to:		
Current	39.2	31.9
Non-current	76.0	67.8
At 31 December	115.2	99.7

The following are the amounts recognised in consolidated statement of comprehensive income:

	2022 AED millions	2021 AED millions
Depreciation expense of right-of-use assets (note 8)	36.9	17.8
Interest expense on lease liabilities included in finance costs (note 10)	5.5	2.4
Variable lease payment recognised as rent expenses (note 7)	17.1	7.7
Rent concessions (note 6)	-	(2.3)
	59.5	25.6

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At 31 December 2022

32. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The Group had total cash outflows of AED 59.9 million in the year ended 31 December 2022 (2021: AED 31.6 million) which relates to payment of lease liabilities including finance expenses component. The weighted average incremental borrowing rate is used at the rate of 5% per annum.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. The maturity analysis of lease liabilities are disclosed in note 33.

33. RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign 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.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, trade and other payables, trade receivables, bank balances and other receivables and investments in equity instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December in 2022 and 2021.

The sensitivity of the relevant consolidated statement of profit or loss item or equity is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2022 and 2021.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's un-hedged debt obligations with floating interest rates.

The following table demonstrates the sensitivity of the consolidated statement of profit or loss to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial liabilities held at 31 December 2022 and 31 December 2021. The effect of a decrease in interest rates on the variable rate instruments (excluding hedged debt obligations) is expected to be equal and opposite to the effect of the increases as shown below:

	<i>Bank and other borrowings AED millions</i>	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year AED millions</i>
2022	320.5	+50	1.6
		-50	(1.6)
2021	269.4	+50	(1.3)
		-50	1.3

b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

33. RISK MANAGEMENT (continued)**Market risk (continued)****b) Foreign currency risk (continued)**

The Group manages its currency risk by regularly assessing current and expected foreign currency exchange rate movements and Group's foreign currencies payable.

Foreign exchange risk arises on sales, purchases and recognised assets or liabilities that are primarily denominated in a currency that is not entity's functional currency.

The table below demonstrates the sensitivity to a reasonable possible change of the AED currency rate against the foreign currencies, with all other variables held constant, on the consolidated statement of comprehensive income (due to changes in the fair value of currency sensitive monetary assets and liabilities).

The effect of decreases in currency rates is expected to be equal and opposite to the effect of the increases shown.

	<i>Balance receivable/ (payable)</i>	<i>Increase in exchange rate to the AED</i>	<i>Effect on profit AED m</i>
2022			
Euro	(2.7)	+5%	(0.1)
		-5%	0.1
2021			
Euro	(5.2)	+5%	(0.3)
		-5%	0.3

c) Price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. However, the Group is not exposed to price risk since it has no listed equity securities at the reporting date.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances and receivables as follows.

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 90 -180 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies is disclosed in note 3.6.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of these receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For forward looking factor, long term macroeconomic factor has not been considered as the maturity of invoices is typically less than one year and accordingly historical rates are adjusted only on the basis deterioration in the future economic conditions.

The collateral factored through loss given default estimates and hence are not used to adjust exposure while computing expected credit loss. The Group limits its exposure to credit risk by investing with counterparties that have credible market reputation. The Group's management does not expect any significant counterparty to fail to meet its obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33. RISK MANAGEMENT (continued)**Credit risk (continued)**

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	2022		
	<i>Gross value AED millions</i>	<i>Allowance for expected credit losses AED millions</i>	<i>Expected credit loss (ECL)</i>
Trade receivables with general provision	597.6	44.3	7.4%
Specific provision for receivables	134.3	134.3	100%
	<u>731.9</u>	<u>178.6</u>	
	2021		
	<i>Gross value AED millions</i>	<i>Allowance for expected credit losses AED millions</i>	<i>Expected credit loss (ECL)</i>
Trade receivables with general provision	527.0	50.0	9.5%
Specific provision for receivables	122.4	122.4	100%
	<u>649.4</u>	<u>172.4</u>	

Financial instruments and cash deposit

Credit risk from balances with banks and other financial institutions is managed by the Group by investing surplus funds only with approved and reputable counterparties and within credit limits assigned to each counterparty. Bank deposits, and term deposits are limited to high-credit-quality financial institutions. Accordingly, the ECL as at the reporting date against bank balances is minimal. Credit risk on other financial assets are assessed to be minimal based on historical default and the fact that they are held with counterparties with creditworthiness evaluated to be good by the Company's internal process.

Due from related parties and other receivables

For due from related parties and other receivables, the management has separately assessed the balance and the computed impact is immaterial.

With respect to credit risk arising from other financial assets including deposits and other receivables, the Group's exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these assets.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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33. RISK MANAGEMENT (continued)**Liquidity risk**

The table below summarises the maturity profile of the Group's financial liabilities. The contractual maturities of the financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the liabilities at the reporting date based on contractual repayment arrangements was as follows:

2022

	<i>Less than 1 year AED millions</i>	<i>1 to 5 years AED millions</i>	<i>More than 5 years AED millions</i>	<i>Total AED millions</i>
Trade payables and accruals	493.8	-	-	493.8
Bank borrowings	61.9	160.2	600.8	822.9
Lease liabilities	43.7	81.4	-	125.1
	<u>599.4</u>	<u>241.6</u>	<u>600.8</u>	<u>1,441.8</u>

2021

	<i>Less than 1 year AED millions</i>	<i>1 to 5 years AED millions</i>	<i>More than 5 years AED millions</i>	<i>Total AED millions</i>
Trade payables and accruals	549.0	-	-	549.0
Bank borrowings	74.3	-	734.4	808.7
Lease liabilities	37.4	68.6	-	106.0
Lease liabilities	<u>660.7</u>	<u>68.6</u>	<u>734.4</u>	<u>1,463.7</u>

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less bank balances and cash. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratio at the year end was as follows:

	<i>2022 AED millions</i>	<i>2021 AED millions</i>
Bank borrowings	770.5	719.4
Less: bank balances and cash	(92.3)	(159.3)
Net debt	<u>678.2</u>	<u>560.1</u>
Total equity	<u>928.2</u>	<u>963.8</u>
Net debt to equity ratio (times)	<u>0.7</u>	<u>0.6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33. RISK MANAGEMENT (continued)**Capital management (continued)**

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the banks and other borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

34. 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.

Fair value of financial instruments carried at amortised cost

Management considers that the fair value of financial assets and financial liabilities are not materially different from their carrying values at reporting date since assets and liabilities not already measured at fair value have either short-term maturities or in the case of borrowings are frequently repriced and the prevalent interest rates reflect risks associated with the borrowings.

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 annual consolidated financial statements for the year ended 31 December 2021.

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:

<i>Fair Value as at</i>						
<i>Financial assets</i>	<i>2022 AED millions</i>	<i>2021 AED millions</i>	<i>Fair value hierarchy</i>	<i>Valuation techniques and key inputs</i>	<i>Significant unobservable input</i>	
					<i>2022</i>	<i>2021</i>
FVTPL: Unquoted equity investments	19.5	19.5	Level 3	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)	<ul style="list-style-type: none"> ▪ Cost of equity ▪ Growth rate ▪ Discount for lack of marketability 	<ul style="list-style-type: none"> ▪ Discount rate ▪ Growth rate ▪ Discount for lack of marketability
FVOCI: Quoted equity investments	0.3	-	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	None
	19.8	19.5				

34. FAIR VALUE MEASUREMENTS (continued)

<i>Derivative financial instrument</i>	<i>Fair Value as at</i>		<i>Fair Value hierarchy</i>
	<i>2022 AED million</i>	<i>2021 AED million</i>	
Interest rate cap	25.2	(1.5)	Level 2

Fair value hierarchy

The following table provides an analysis of financial and non-financial instruments 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 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

35. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Portion of equity interest held by non-controlling interests:

<i>Name</i>	<i>Place of incorporation and operation</i>	<i>2022 Percentage of ownership</i>	<i>2021 Percentage of ownership</i>
Julphar Pharmaceuticals PLC	Ethiopia	55.0%	55%
		<i>2022 AED millions</i>	<i>2021 AED millions</i>

Accumulated balances of material non-controlling interests:

Julphar Pharmaceuticals PLC (note 14(f))	11.7	7.1
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Profit allocated to material non-controlling interests:

Julphar Pharmaceuticals PLC (note (14(e)))	(2.3)	0.8
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35. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**Portion of equity interest held by non-controlling interests: (continued)**

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	2022 Julphar Pharmaceuticals PLC AED millions	2021 Julphar Pharmaceuticals PLC AED millions
Summarised statement of profit or loss		
Revenue from contracts with customers	16.5	9.7
Cost of sales	(8.9)	(5.9)
Selling, distribution and administrative expenses	(1.3)	(1.3)
Hyperinflation adjustment	(9.5)	-
Other income	-	0.1
Profit before tax	(3.2)	2.6
Income tax	(1.8)	(0.8)
Profit for the year	(5.0)	1.8
Other comprehensive loss for the year	15.2	-
Total comprehensive income for the year	10.2	1.8
Attributable to non-controlling interests	4.6	0.8
	2022 Julphar Pharmaceuticals PLC AED millions	2021 Julphar Pharmaceuticals PLC AED millions
Summarised statement of financial position		
Property, plant and equipment (non-current assets)	9.6	3.5
Inventories (current assets)	4.8	6.8
Trade and other receivables (current assets)	2.9	3.8
Bank balances and cash (current assets)	17.0	9.7
Trade payables and other accruals (current liabilities)	(8.4)	(8.0)
Total equity	25.9	15.8
Attributable to:		
Equity holders of the Parent	14.2	8.7
Non-controlling interest	11.7	7.1
	2022 Julphar Pharmaceuticals PLC AED millions	2021 Julphar Pharmaceuticals PLC AED millions
Summarised statement of cash flow		
Operating	8.7	(0.1)
Investing	-	(0.4)
Financing	(0.2)	(0.1)

36. DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2022, the Group entered into an “Interest Rate Cap” (“IR Cap”) agreement to hedge its exposure to the variability in cash flows arising from interest payment on syndicated loans from local banks.

The Company entered into IR Cap, that effectively fix the interest rate on 68% of its available facilities. Under the terms of this contract, the Group pays a floating rate of interest up to the pre-determined capped rate of interest on the principal balance.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate cap match the terms of the syndicated loans (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate cap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties’ credit risk differently impacting the fair value movements of the hedging instrument and hedged item

For the purpose of hedge accounting, IRS is classified as cash flow hedge. The fair value and notional amount of the hedge are as follows:

	2022	
	<i>Positive fair value AED millions</i>	<i>Notional amount AED millions</i>
Interest rate cap	25.2	450.0
	2021	
	<i>Negative fair value AED millions</i>	<i>Notional amount AED millions</i>
Interest rate cap	1.5	450.0

The interest rate cap is assessed to be effective and as at 31 December 2022, an unrealized gain of AED 26.9 million (2021: unrealized loss of AED 1.5 million) has been included in equity as cash flow hedge reserve.

During the year ended 31 December 2022, the Group has reclassified an amount of AED 1.3 million which relates to the amortisation of the time value of money over the period of the hedge relating to the year (2021: nil).

The amount shown as cash flow hedge reserve under equity as at 31 December 2022 of AED 26.7 million (2021: negative AED 1.5 million) is mainly expected to affect profit or loss during the period until maturity of IR Cap.

There was no ineffectiveness recognised in the consolidated statement of profit or loss as the same was immaterial to the overall consolidated financial statements.

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37. CORPORATE INCOME TAX IN THE UAE

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate. A rate of 0% will apply to taxable income not exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance). In addition, there are several other decisions that are yet to be finalised by way of a Cabinet Decision that are significant in order for entities to determine their tax status and the taxable income. Therefore, pending such important decisions by the Cabinet as at 31 December 2022, the Company has considered that the Law is not substantively enacted from IAS 12 – Income Taxes perspective as at 31 December 2022. The Company shall continue to monitor the timing of the issuance of these critical cabinet decisions to determine their tax status and the application of IAS 12 – Income Taxes.

The Company is currently in the process of assessing the possible impact on financial statements, both from current and deferred tax perspective, once the critical cabinet decisions are issued.

38. ADOPTION OF IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES ('IAS 29')

Ethiopia has been determined to be a hyperinflationary economy under IAS 29 with the three-year accumulated inflation exceeding 100 percent. IAS 29 requires non-monetary assets and liabilities of the Group's Ethiopian subsidiary, to be restated to reflect their current prices using the Consumer Pricing Index (CPI) in the local currency of the reporting unit before translation to the Group's functional currency.

As at 31 December 2022, the three-year cumulative inflation rate has been 107% based on the Ethiopian consumer price index ('CPI'). The consumer price index at the beginning of the reporting period was 248.7 points and closed at 328.9 points resulting in an increase of 32.2%. Qualitative indicators, such as the deteriorating economic condition, support the conclusion that Ethiopia is a hyperinflationary economy for accounting purposes for year ended 31 December 2022.

Therefore, entities whose functional currency is the Ethiopian Birr, should restate their financial statements to reflect the effects of inflation in conformity with IAS 29. Such restatement shall be made as if the Ethiopian economy have always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

As of 31 December 2022, all conditions have been met for the Julphar Pharmaceuticals P.L.C ("Julphar Ethiopia"), a subsidiary operating in Ethiopia, on such date to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies" in their year-end financial statements. IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period.

- Net non-monetary position (excluding equity) have been indexed by applying the difference in CPI from 31 December 2021 to 31 December 2022 resulting in a loss of AED 0.2 million in the consolidated statement of profit or loss to the extent determined to be recoverable.
- Monetary assets and liabilities are already reported at the current measuring unit and are not adjusted for inflation. However, the CPI index is applied to measure the loss of purchasing power and for the net monetary position, a hyperinflation adjustment is made in the consolidated statement of comprehensive income, amounting to AED 9.5 million with an equal corresponding credit to other comprehensive income (OCI).
- Current year consolidated statement of comprehensive income is indexed using the respective period index movement for the year 2022.
- The Group has recognised a gain in OCI an amount of AED 16.8 million which represents the impact of indexing of non-monetary items from the date these were acquired by applying fluctuation in the CPI from the date of acquisition to 31 December 2021 to the extent determined to be recoverable.

During the year ended 31 December 2022, the loss for the Group was AED 31.7 million. Overall, the hyperinflation adjustment results in a loss of AED 9.5 million .

The hyperinflationary adjustments are not taxable or tax deductible in either Ethiopia or the UAE, resulting in a permanent tax difference.

39. COMPARATIVE INFORMATION

Certain corresponding figures for previous year have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported loss or shareholder's equity.