Gulf Pharmaceutical Industries P.S.C.

Directors' report and consolidated financial statements for the year ended 31 December 2017

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Julphar

Directors' report

The Board of Directors of Gulf Pharmaceutical Industries P.S.C. (the "Company") and its subsidiaries (the "Group" or "Julphar") is pleased to present their report along with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Financial Performance

Julphar recorded sales of AED 1.27 billion, a decline of 13.1% against 2016 sales of AED 1.46 billion.

The net profit is AED 90.3 million for the year ended 31 December 2017 as compared to AED 210.1 million in the previous year, down by 57%.

Outlook 2018

Julphar's strategy for 2018 is to further consolidate its strong position in the major markets like GCC and be a market leader in generics by introducing several new products. Julphar would like to focus on its overseas manufacturing facility in Saudi Arabia.

Proposed Dividend

The Board has recommended a cash dividend of 10% and 3% bonus shares to the shareholders of the Company.

Auditors

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

Acknowledgements

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

On behalf of the Board

Sh Faisal Bin Saqer Al Qasimi
Chairman
28 March 2018

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الخليج للصناعات الدوائية
Gulf Pharmaceutical Industries

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gulf Pharmaceutical Industries P.S.C (the "Company") and its subsidiaries (together, the "Group" or "Julphar") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

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

Our audit approach

Overview

Key Audit Matter	• Adequacy of allowance for doubtful trade receivables

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

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

Key audit matters

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

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

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

Other information

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

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

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

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

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

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

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

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

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.

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

(v) notes 8 and 10 to the consolidated financial statements disclose the investment in shares during the financial year ended 31 December 2017, if any;

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

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened, during the year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or in respect of the Company, its Memorandum of Association, which would materially affect its activities or its financial position as at 31 December 2017; and

(viii) note 21 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2017.

PricewaterhouseCoopers
29 March 2018

Jacques Fakhoury

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

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of financial position

	Note	As at 31 December 2017 AED m	2016 AED m
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,156.9	1,162.8
Intangible assets	6	46.5	49.9
Investment in an associate	7	268.4	263.7
Available-for-sale-financial assets	8	11.5	47.2
		1,483.3	1,523.6
Current assets			
Inventories	9	328.0	387.2
Financial assets at fair value through profit and loss	10	0.3	19.0
Trade and other receivables	11	1,547.6	1,379.6
Cash and bank balances	12	168.5	164.0
		2,044.4	1,949.8
Total assets		3,527.7	3,473.4
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1,124.8	1,092.0
Statutory reserve	14	562.4	546.0
Voluntary reserve	15	184.8	184.8
Foreign currency translation reserve		(136.6)	(120.0)
Fair value reserve		2.0	2.7
Retained earnings		328.3	462.1
Capital and reserves attributable to owners of the company		2,065.7	2,167.6
Non-controlling interest		144.6	138.6
Total equity		2,210.3	2,306.2
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service indemnity	16	46.7	44.3
Bank borrowings	17	409.9	304.0
		456.6	348.3
Current liabilities			
Bank borrowings	17	499.5	487.7
Trade payables and other accruals	18	361.3	331.2
		860.8	818.9
Total liabilities		1,317.4	1,167.2
Total equity and liabilities		3,527.7	3,473.4

These consolidated financial statements were approved by the Board of Directors on 28 March 2018 and signed on its behalf by:

H.H. Faisal Bin Saqr Al Qasimi
Chairman

Jerome Carle
General Manager

The notes on pages 12 to 63 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of income

	Note	Year ended 31 December 2017 AED m	2016 AED m
Sales	19	1,273.4	1,454.5
Cost of sales	20	(626.6)	(703.8)
Gross profit		646.8	750.7
General and administrative expenses	21	(108.6)	(110.6)
Selling and distribution expenses	22	(465.2)	(463.7)
Other income	23	14.1	8.1
(Loss)/gain from investments	24	(0.9)	22.6
Share of profit from investment accounted for using the equity method	7	24.7	22.1
Operating profit		110.9	229.2
Finance income		5.1	8.9
Finance costs		(25.7)	(28.0)
Finance costs – net		(20.6)	(19.1)
Profit for the year		90.3	210.1
Profit attributable to:			
Owners of the company		94.9	212.1
Non-controlling interests		(4.6)	(2.0)
		90.3	210.1
Basic and diluted earnings per share (in UAE fils)	25	8.2	18.3

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of other comprehensive income

	Year ended 31 December	
	2017	2016
	AED m	AED m
Profit for the year	90.3	210.1
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Change in the fair value of available-for-sale finance assets	(0.1)	(5.6)
Reclassification adjustment on disposal of available for sale financial assets	(0.6)	(8.3)
	(0.7)	(13.9)
Currency translation differences	(16.6)	(116.7)
Total other comprehensive loss	(17.3)	(130.6)
Total comprehensive income for the year	73.0	79.5
Attributable to:		
Owners of the company	77.6	81.5
Non-controlling interests	(4.6)	(2.0)
	73.0	79.5

The notes on pages 12 to 63 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of changes in equity

	Share capital AED m	Statutory reserve AED m	Voluntary reserve AED m	Foreign currency translation reserve AED m	Fair value reserve AED m	Retained earnings AED m	Attributable to owners of the company AED m	Non-controlling interest AED m	Total AED m
At 1 January 2016	1,050.0	532.0	184.8	(3.3)	16.6	421.5	2,201.6	91.2	2,292.8
Profit for the year	-	-	-	-	-	212.1	212.1	(2.0)	210.1
Other comprehensive loss for the year	-	-	-	(116.7)	(13.9)	-	(130.6)	-	(130.6)
Total comprehensive income for the year	-	-	-	(116.7)	(13.9)	212.1	81.5	(2.0)	79.5
Issuance of bonus shares (Note 13 & 26)	42.0	-	-	-	-	(42.0)	-	-	-
Cash dividends for 2015 (Notes 13 & 26)	-	-	-	-	-	(115.5)	(115.5)	-	(115.5)
Transfer to statutory reserve	-	14.0	-	-	-	(14.0)	-	-	-
Movement in non-controlling interest	-	-	-	-	-	-	-	49.4	49.4
	42.0	14.0	-	(116.7)	(13.9)	40.6	(34.0)	47.4	13.4
Balance at 31 December 2016	1,092.0	546.0	184.8	(120.0)	2.7	462.1	2,167.6	138.6	2,306.2
Profit for the year	-	-	-	-	-	94.9	94.9	(4.6)	90.3
Other comprehensive loss for the year	-	-	-	(16.6)	(0.7)	-	(17.3)	-	(17.3)
Total comprehensive income for the year	-	-	-	(16.6)	(0.7)	94.9	77.6	(4.6)	73.0
Issuance of bonus shares (Note 13 & 26)	32.8	-	-	-	-	(32.8)	-	-	-
Cash dividends for 2016 (Note 13 & 26)	-	-	-	-	-	(174.7)	(174.7)	-	(174.7)
Acquisition of non-controlling interest	-	-	-	-	-	(4.8)	(4.8)	(19.7)	(24.5)
Transfer to statutory reserve	-	16.4	-	-	-	(16.4)	-	-	-
Movement in non-controlling interest	-	-	-	-	-	-	-	30.3	30.3
	32.8	16.4	-	-	-	(228.7)	(179.5)	10.6	(168.9)
Balance at 31 December 2017	1,124.8	562.4	184.8	(136.6)	2.0	328.3	2,065.7	144.6	2,210.3

The notes on pages 12 to 63 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of cash flows

	Note	Year ended 31 December 2017 AED m	2016 AED m
Cash flow from operating activities:			
Profit for the year		90.3	210.1
Adjustments for:			
Depreciation of property, plant and equipment	5	88.3	89.5
Amortisation of intangible asset	6	5.6	3.8
Share of profit from investment in associate	7	(24.7)	(22.1)
Net (reversal)/allowance for slow-moving inventories	9	(14.6)	3.1
Allowance for doubtful debts	11	9.1	16.5
Loss on sale of property, plant and equipment		0.1	0.2
Loss/(gain) on sale of financial asset at FVTPL	24	1.0	(3.7)
Loss/(gain) on revaluation of financial asset at FVTPL	24	4.9	(8.0)
Gain on sale of available-for-sale investments	24	(3.0)	-
Recycled gain on available-for-sale investments	24	(0.6)	(8.3)
Available for sale investment written off	8	0.5	-
Provision for employees' end of service indemnity	16	8.0	7.8
Finance income		(5.1)	(9.1)
Finance costs		25.7	28.0
Operating cash flow before payment of end of service benefits and changes in working capital		185.5	307.8
Employees end of service benefits paid	16	(5.6)	(5.9)
Changes in working capital:			
Trade and other receivables		(201.6)	(156.4)
Inventories		73.6	101.1
Trade payables and accruals		30.5	21.0
Net cash generated from operating activities		82.4	267.6
Cash flows from investing activities:			
Additions to property, plant and equipment and intangible assets	5,6	(87.5)	(103.1)
Sales proceeds from disposal of available-for-sale financial assets		38.8	20.6
Sales proceeds from sale of financial asset at FVTPL		12.8	15.0
Proceeds from sale of property, plant and equipment and intangible assets	5,6	-	3.0
Dividends received from investment accounted for using the equity method	7	20.0	-
Net cash used in investing activities		(15.9)	(64.5)
Cash flows from financing activities:			
Proceeds from bank borrowings		750.4	456.9
Repayment of loans		(638.4)	(474.1)
Dividends paid		(175.4)	(116.2)
Increase in non-controlling interest		30.3	47.4
Finance income received		5.1	9.1
Interest paid		(25.7)	(28.0)
Net cash used in financing activities		(53.7)	(104.9)
Net increase in cash and cash equivalents		12.8	98.2
Currency translation differences		(8.3)	(85.7)
Cash and cash equivalents, at the beginning of the year	12	164.0	151.5
Cash and cash equivalents, end of the year	12	168.5	164.0

For significant non-cash transactions, refer to Note 32, 'Non-cash transactions'

1 Establishment and operations

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

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

The Company holds investments in subsidiaries as disclosed under Note 2.3.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

(a) Compliance with IFRS

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

(b) Historical cost convention

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Historical cost convention (continued)

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which by definition, will seldom equal the actual results. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ended 31 December 2017 and have not been early adopted by the Group. None of these are expected to have a significant effect on these consolidated financial statements of the Group except the following set out below.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: financial instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through profit and loss of AED 11.5 million, will have to be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains of AED 2.0 million will have to be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

  The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is currently assessing the quantitative impact of the above mentioned impairment model on its financial instruments. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

The five steps in the model are as follows:

(i) Identify the contract with the customer

(ii) Identify the performance obligations in the contract

(iii) Determine the transaction price

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

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

The standard is effective for accounting periods beginning on or after 1 January 2018. The group is currently assessing the quantitative impact of the above mentioned items on its revenue recognition

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

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

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group entities

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

(c) Group entities (continued)

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

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the group (refer to Note 2.27).

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

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

(ii) Associates

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

2 Summary of significant accounting policies (continued)

2.3 Principles of consolidation and equity accounting (continued)

(iii) Equity method

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.6.

(iv) Changes in ownership interests

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

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

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

2 Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

Details of the Company's subsidiaries as of 31 December 2017 were as follows:

Serial No.	Name of subsidiary	Place of incorporation and operation	Percentage of ownership 2017	Percentage of ownership 2016	Principle activity
1.	Mena Cool F.Z.E	Ras Al Khaimah UAE	100%	100%	Transportation
2.	Julphar Pharmaceuticals P.L.C	Ethiopia	55%	55%	Manufacturing of medicines, wrapping and packing materials
3.	Julphar Pharma GMBH	Germany	100%	100%	Manufacturing of medical supplies Discontinued
4.	Gulf Inject L.L.C.	Dubai – UAE	100%	51%	Manufacturing of medical supplies
5.	RAK Pharmaceuticals Pvt. Ltd.	Dhaka – Bangladesh	50.5%	50.5%	Manufacturing of medicines
6.	Julphar Saudi Arabia L.L.C.	Rabigh – Saudi Arabia	51%	51%	Manufacturing of medicines
7.	Julphar Egypt Company L.L.C.	Cairo – Egypt	100%	100%	Distributors of Julphar's products in Egypt
8.	Julphar Diabetes L.L.C.	Ras Al Khaimah – U.A.E.	100%	100%	Manufacturer of insulin products
9.	Julphar General Trading L.L.C.	Ras Al Khaimah – U.A.E.	100%	100%	General Trading
10.	Mena Cool Machinery Trading	Ras Al Khaimah – U.A.E.	100%	100%	General Trading

2 Summary of significant accounting policies (continued)

2.4 Property, plant and equipment

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

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

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

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

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

Assets	**Life (years)**
Buildings	10-50
Plant and machinery	3-17
Installations	4-25
Motor vehicles	3-10
Furniture and fixtures	4-10
Tools and equipments	3-10
Land improvements	10-25

2 Summary of significant accounting policies (continued)

2.4 Property, plant and equipment (continued)

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

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

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

2.5 Intangible assets

(a) Developed Products

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

(b) Licenses and permits

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

2.6 Impairment of non-financial assets

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

2 Summary of significant accounting policies (continued)

2.7 Financial assets

2.7.1 Classification

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

(a) Financial assets at fair value through profit and loss

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise, 'Trade and other receivables (excluding prepayments and advances)' (Note 11), 'due from related parties' (Note 28) and 'cash and cash equivalents' (Note 12) in the consolidated statement of financial position.

The Group's exposure to various risks associated with holding these financial instruments is discussed in Note 3.1. A detailed breakdown for the classification of financial instruments is given on Note 30 to the consolidated financial statements.

(c) Available-for-sale financial asset

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

2.7.2 Recognition, de-recognition and measurement

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

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.2 Recognition, de-recognition and measurement (continued)

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

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

2.8 Offsetting financial assets and financial liabilities

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

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

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

(b) Assets classified as available-for-sale

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

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

2.10 Inventories

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

2.11 Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (if any). See Note 11 for further information about the Group's accounting for trade receivables.

2 Summary of significant accounting policies (continued)

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade and other payables

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

2.15 Employee benefits

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

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

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

(b) Pension and Social security policy with the UAE

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

2 Summary of significant accounting policies (continued)

2.16 Provisions

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

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

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

2.17 Borrowings

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.18 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.19 Revenue recognition

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

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

Sale of goods – whole sale

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

Revenue is recognised in the consolidated statement of income when:

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

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

2 Summary of significant accounting policies (continued)

2.20 Leases

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

Operating lease

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

2.21 De-recognition of financial instruments

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset) is de-recognised when:

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

(b) Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

If 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 a de-recognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.22 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 net carrying amount.

2.23 Dividends

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

2.24 Dividend distribution

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

2.25 Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (Note 25).

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Group that makes strategic decisions.

2 Summary of significant accounting policies (continued)

2.27 Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign currency risk

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 Group is exposed to foreign currency risk arising from future commercial transactions, recognised assets and liabilities that are denominated in a currency other than the respective functional currencies of the Group entities. Management has set up policies to require Group companies to manage their foreign currency risk against their functional currency. As AED is pegged to the USD, balances in USD are not considered to represent significant foreign currency risk. The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Euro (EUR) and Egyptian Pound (EGP).

Gulf Pharmaceutical Industries P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Financial risk management

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

At the balance sheet date, the Group's monetary assets and monetary liabilities expressed in AED are as follows:

	EUR Million	**EGP** million	**Total** million
2017			
Available-for-sale financial asset	-	-	-
Cash and cash equivalents	4.8	0.4	5.2
Trade receivables	-	29.7	29.7
Bank borrowings	(45.2)	-	(45.2)
Net balance sheet exposure	(40.4)	30.1	(10.3)
2016			
Available-for-sale financial asset	4.7	-	4.7
Cash and cash equivalents	12.2	0.6	12.8
Trade receivables	-	27.3	27.3
Bank borrowings	(39.8)	-	(39.8)
Net balance sheet exposure	(22.6)	27.9	5.0

The table below details the Group's sensitivity to a 5% increase or decrease in AED against the Euro and 10% increase or decrease in AED against the Egyptian Pound with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). 5% -10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5%-10% change in foreign currency rates.

	2017		2016	
	Increase/ (decrease) in basis points	**Effect on profit before income tax AED m**	**Increase/ (decrease) in basis points**	**Effect on profit before income tax AED m**
EUR	+5%	(0.7)	+5%	1.4
	-5%	0.7	-5%	(1.4)
EGP	+5%	1.5	+5%	3.0
	-5%	(1.5)	-5%	(3.0)

3 Financial risk management

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity securities price risk through its investments at fair value through profit and loss and available-for-sale financial asset. To manage the risk the Group diversifies and places such investments with financially sound institutions.

At the reporting date if the prices of investments in equity instruments are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Group's:

- Profit would have increased/decreased by AED 0.03 million (2016: AED 1.9 million) in the case of investments held for trading.
- Equity would have increased/decreased by AED 1.2 million (2016: AED 4.7 million) in the case of available-for-sale investments.

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk which is partially offset against cash held at variable rates. The Group manages the risk by opting for best available options.

The Group is also exposed to interest rate risk with reference to its fixed rate time deposits with banks. During the current year, interest on fixed deposits ranged from 1% to 2% per annum (2016: from 1% to 2% per annum).

If interest rates on bank borrowings had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Group's profit for the year ended 31 December 2017 and equity as at 31 December 2017 would decrease/increase by approximately AED 2.0 million (2016: AED 3.9 million).

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk mainly arises from 'trade and other receivables' (Note 11) and 'cash and cash equivalents' (Note 12).

With respect to trade and other receivables, Group has policies in place to ensure that its exposure to credit risk is minimal by setting credit limits for individual customers and monitoring outstanding receivables based on long standing relationships.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk* (continued)

The trade receivable balances are presented in the consolidated statement of financial position net of any applicable allowances for losses that were estimated by the Group's management based on prior experience and prevailing economic conditions. Current year's sales include AED 697.7 million being sales to two main customers (2016: AED 723.7 million being sales to two main customers). Total trade receivables due from the above two main customers amounted to AED 1,055.3 million as at 31 December 2017 (2016: AED 828.1 million).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

	2017 AED m	2016 AED m
Trade and other receivables (Note 11) (excluding prepayments, staff receivable and advance from suppliers)	1,499.8	1,340.5
Cash and cash equivalents (Note 12)	168.5	164.0
	1,668.3	1,504.5

Credit risk related to 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. The table below presents an analysis of cash and bank balances by rating agency designation at the end of reporting period based on Moody's ratings or its equivalent for the main banking relationships:

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Cash and cash equivalents	External rating	2017 AED m	2016 AED m
Counterparty 1	A1	35.6	17.3
Counterparty 2	A2	3.7	4.7
Counterparty 3	A3	45.9	0.9
Counterparty 5	Aa3	39.7	-
Counterparty 6	B1	0.9	2.7
Counterparty 7	B3	5.8	8.7
Counterparty 8	Ba2	14.2	68.0
Counterparty 10	Baa1	0.3	-
Counterparty 11	Baa2	4.2	38.1
Counterparty 12	Baa3	-	5.5
Others *	Unrated	14.5	14.3
		164.8	160.2

* Balance maintained with banks having no formal credit rating with Moody's. However, management views these banks to be high credit quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group maintains flexibility in funding by keeping adequate cash and bank balances and through managing banking relationship and facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Financial assets

	Within 1 year AED m	2 years – 5 years AED m	Total AED m
31 December 2017			
Available-for-sale financial asset (Note 30)	-	11.5	11.5
Financial assets at fair value through profit and loss (Note 30)	0.3	-	0.3
Trade and other receivables (Note 30) (excluding advance to suppliers, staff receivable and prepayments)	1,499.8	-	1,499.8
Bank balances and cash (Note 30)	168.5	-	168.5
	1,668.6	11.5	1,680.1
31 December 2016			
Available-for-sale financial asset (Note 30)	-	47.2	47.2
Financial assets at fair value through profit and loss (Note 30)	19.0	-	19.0
Trade and other receivables (excluding advance to suppliers, staff receivable, and prepayments) (Note 30)	1,340.5	-	1,340.5
Bank balances and cash (Note 30)	164.0	-	164.0
	1,523.5	47.2	1,570.7

Financial liabilities

	Within 1 year AED m	2 years – 5 years AED m	Total AED m
31 December 2017			
Bank borrowings	525.0	427.3	952.3
Trade payables and accruals (Note 30) (excluding rebates and accruals, leave salary and air passage and advances from customers)	217.1	-	217.1
Total	742.1	427.3	1,169.4
31 December 2016			
Bank borrowings	504.8	314.6	819.4
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advances from customers) (Note 30)	231.6	-	231.6
Total	736.4	314.6	1,051.0

3 Financial risk management (continued)

3.2 Fair value estimation (continued)

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 total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. 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:

	2017 AED m	2016 AED m
Borrowings	909.4	791.7
Bank balances and cash	(168.5)	(164.0)
Net debt	740.9	627.8
Equity	2,210.3	2,306.2
Net debt to equity ratio (times)	0.3	0.3

3.3 Fair value estimation

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.2 Fair value estimation (continued)

31 December 2017	Level 1 AED m	Level 2 AED m	Level 3 AED m	Total AED m
Financial assets				
Financial assets at fair value through profit and loss (Note 10)	0.3	-	-	0.3
Trade and other receivables (excluding advance to suppliers, staff receivables and prepaid expenses) (Note 30)	-	-	1,499.8	1,499.8
Bank balances and cash (Note 12)	-	-	168.5	168.5
Available-for-sale financial assets				
Mutual funds (Note 8)	-	4.8	-	4.8
Unquoted equities (Note 8)	-	-	6.7	6.7
	0.3	4.8	1,675.0	1,680.1
Financial liabilities				
Bank borrowings (Note 17)	-	-	909.4	909.4
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advances from customers) (Note 18)	-	-	217.1	217.1
	-	-	1,126.5	1,126.5

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

31 December 2016	Level 1 AED m	Level 2 AED m	Level 3 AED m	Total AED m
Financial assets				
Financial assets at fair value through profit and loss (Note 10)	19.0	-	-	19.0
Trade and other receivables (excluding advance to suppliers, staff receivables and prepaid expenses) (Note 30)	-	-	1,340.5	1,340.5
Bank balances and cash (Note 12)	-	-	164.0	164.0
Available-for-sale financial assets				
Quoted equities (Note 8)	30.3	-	-	30.3
Mutual funds (Note 8)	-	9.8	-	9.8
Unquoted equities (Note 8)	-	-	7.1	7.1
	49.3	9.8	1,511.6	1,570.7
Financial liabilities				
Bank borrowings (Note 17)	-	-	791.8	791.8
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advances from customers) (Note 18)	-	-	231.6	231.6
	-	-	1,023.4	1,023.4

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table gives information about how the fair values of these financial assets are determined:

Financial assets	Fair value as at 31 December 2017 AED m	Fair value as at 31 December 2016 AED m	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Quoted equity investments – AFS	-	30.3	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	NA
Mutual funds – AFS	4.8	5.0	Level 2	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)	Net assets value	Higher the net assets value of the investees, higher the fair value
Quoted equity investments – FVTPL	0.3	19.0	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	NA

4 Critical accounting judgments and key sources of estimation uncertainty

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

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

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

(a) Useful lives of intangible assets

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

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

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

(b) Allowance for doubtful debts

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

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

(c) Allowance for slow moving and obsolete inventories

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

(d) Useful lives of property, plant and equipment

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

5 Property, plant and equipment

	Land AED m	Buildings AED m	Plant and machinery AED m	Installations AED m	Motor vehicles AED m	Furniture and fixtures AED m	Tools and equipments AED m	Leasehold improvements AED m	Capital work-in-progress AED m	Total AED m
Cost										
At 1 January 2016	62.9	484.7	1,042.8	118.5	32.0	16.1	26.5	10.3	72.4	1,866.2
Additions	-	0.1	5.1	1.3	1.8	0.8	0.6	-	85.8	95.5
Transfers	-	59.0	4.9	4.4	-	-	-	-	(68.3)	-
Disposals	-	-	(1.5)	-	(0.5)	-	-	-	(1.8)	(3.8)
Exchange rate reserve	(0.5)	(0.3)	(0.9)	-	-	(0.7)	-	-	(1.5)	(3.9)
At 31 December 2016	62.4	543.5	1,050.4	124.2	33.3	16.2	27.1	10.3	86.6	1,954.0
Additions	1.3	-	14.9	0.9	1.1	0.9	1.1	-	67.3	87.5
Transfers	-	-	4.6	-	-	-	-	-	(4.6)	-
Disposals	-	-	(1.0)	-	(0.8)	-	(0.1)	-	-	(1.9)
Exchange rate reserve	0.1	(1.1)	(2.9)	-	(0.2)	-	-	-	(2.5)	(6.6)
At 31 December 2017	63.8	542.4	1,066.0	125.1	33.4	17.1	28.1	10.3	146.8	2,033.0
Accumulated depreciation										
At 1 January 2016	-	163.5	399.2	87.0	29.6	13.7	3.6	7.5	-	704.1
Charge for the year	-	17.1	59.8	6.5	2.5	1.3	2.1	0.2	-	89.5
Disposals	-	-	(1.5)	-	(0.5)	-	-	-	-	(2.0)
Exchange rate reserve		-	(0.4)	-	-	-	-	-	-	(0.4)
At 31 December 2016	-	180.6	457.1	93.5	31.6	15.0	5.7	7.7	-	791.2
Charge for the year	-	18.9	58.2	6.7	1.1	1.1	2.1	0.2	-	88.3
Disposals	-	-	(1.0)	-	(0.8)	-	-	-	-	(1.8)
Exchange rate reserve	-	(0.2)	(1.6)	-	-	-	0.2	-	-	(1.6)
At 31 December 2017	-	199.3	512.7	100.2	31.9	16.1	8.0	7.9	-	876.1
Net book amount										
At 31 December 2017	63.8	343.1	553.3	24.9	1.5	1.0	20.1	2.4	146.8	1,156.9
At 31 December 2016	62.4	362.9	593.3	30.7	1.7	1.2	21.4	2.6	86.6	1,162.8

5 Property, plant and equipment (continued)

Depreciation for the year charged to cost of sales, selling and distribution expenses and general and administration expenses amounts to AED 71.6 million, AED 8.3 million and AED 8.4 million, respectively. (2016: AED 72.7 million, AED 6.4 million and AED 9.4 million).

Capital work in progress mainly represents construction of new plant in Saudi Arabia for the purpose of production of generic medicines.

6 Intangible assets

	Licenses and permits AED m	Developed products AED m	Others AED m	Total AED m
Cost				
At 1 January 2016	56.6	19.6	1.3	77.5
Additions	-	-	7.7	7.7
Disposals	-	-	(1.3)	(1.3)
Foreign currency translation loss	(26.4)	-	-	(26.4)
At 31 December 2016	30.2	19.6	7.7	57.5
Foreign currency translation gain	2.2	-	-	2.2
At 31 December 2017	32.4	19.6	7.7	59.7
Accumulated amortisation				
At 1 January 2016	2.8	1.0	-	3.8
Charge for the year	2.8	1.0	-	3.8
At 31 December 2016	5.6	2.0	-	7.6
Charge for the year	2.8	1.0	1.8	5.6
At 31 December 2017	8.4	3.0	1.8	13.2
Net book amount				
At 31 December 2017	24.0	16.6	5.9	46.5
At 31 December 2016	24.6	17.6	7.7	49.9

7 Investment in an associate

The Company has 40% shareholding in Planet Pharmacies which is the distributor of the Company's products and has a wide distribution of retail and wholesale pharmacies in UAE, KSA and Oman.

7 Investment in an associate (continued)

Details of the Company's investment in Planet Pharmacies, which is accounted for using the equity method, is as follows:

Name of associate	Place of incorporation	Ownership	2017 AED m	2016 AED m
Planet Pharmacies L.L.C.	U.A.E	40%	268.4	263.7

(a) Below is a summary of the movement on investment in associate:

	2017 AED m	2016 AED m
At 1 January	263.7	241.6
Share of the associate's profit	24.7	22.1
Dividends received during the year	(20.0)	-
At 31 December	268.4	263.7

(b) Summarised financial information

Summarised financial information of the associate, based on its IFRS financial statements, are set out below:

	2017 AED m	2016 AED m
Non-current assets	450.5	476.8
Current assets	892.2	808.8
Non-current liabilities	(13.5)	(12.9)
Current liabilities	(436.8)	(395.0)
Equity	892.4	877.7
Proportion of the Group's ownership	40%	40%
Group's share	357.0	351.1

7 Investment in an associate (continued)

Summarised statement of comprehensive income:

	2017 AED m	2016 AED m
Sales	844.6	871.0
Cost of sales	(621.8)	(656.5)
Gross profit	222.8	214.5
Other income	37.7	28.7
Finance income	1.8	2.6
Selling and distribution expenses	(15.5)	(16.9)
General and administrative expenses	(174.9)	(168.1)
Share of loss of an associate	(0.6)	(1.3)
Profit for the year before tax	71.3	59.5
Income tax	(4.4)	(3.9)
Profit for the year	66.9	55.6
Other comprehensive income	-	-
Total comprehensive income for the year	66.9	55.6
Group's share of profit for the year	24.7	22.1

(c) Reconciliation between equity accounting and movement on investment:

	2017 AED m	2016 AED m
At 31 December (7(a))	268.4	263.7
Unrealised profit on assets contributed towards acquisition and establishment of associate	87.4	87.4
Share on gain on sale of subsidiary not considered for equity pick-up	1.2	-
Closing Balance	357.0	351.1

8 Available-for-sale financial assets

Movement in available-for-sale-investments during the year are as follows:

	2017 AED m	2016 AED m
Balance at 1 January	47.2	73.4
Written off during the year	(0.5)	-
Disposals	(35.1)	(20.6)
Change in the fair value of available-for-sale investments	(0.1)	(5.6)
Balance at 31 December	11.5	47.2

8 Available-for-sale financial assets (continued)

Available-for-sale financial assets, which are denominated in AED, include the following:

	2017 AED m	2016 AED m
Investments within United Arab Emirates		
Quoted U.A.E. equity securities	-	30.3
Mutual funds – quoted	4.8	5.0
Unquoted U.A.E. equity securities	6.7	7.1
	11.5	42.4
Investments outside United Arab Emirates		
Quoted equity securities	-	4.8
	11.5	47.2

During the year, dividend income received from available for sale investments amounted to AED 1.2 million (2016: AED 2.6 million) (Note 24).

Unquoted equity securities comprise of investments in companies which are carried at cost. The cost approximates to the fair values of those companies, less impairment, if any.

(i) *Classification of financial assets as available-for-sale*

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category. The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) *Impairment indicators for available-for-sale financial assets*

A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. See Note 2.9 for further details about the group's impairment policies for financial assets.

9 Inventories

	2017 AED m	2016 AED m
Raw materials	125.0	101.8
Packing materials	50.6	57.9
Spare parts	32.3	31.4
Work in progress	16.5	34.4
Finished goods	99.4	136.2
Consumables	12.5	21.4
Goods in transit	1.2	28.2
	337.5	411.3
Allowance for slow moving inventories	(9.5)	(24.1)
	328.0	387.2

The movement in the Group's provision for slow-moving inventories is as follows:

	2017 AED m	2016 AED m
At 1 January	24.1	21.0
Provision for slow-moving inventories (Note 21)	2.5	3.1
Written-back during the year	(17.1)	-
At 31 December	9.5	24.1

The cost of inventories recognised as an expense and included under cost of sales amounted to AED 213.0 (2016: AED 318.7 million).

The Group reversed AED 17.1 million (2016: AED Nil) of a previous inventory write down, as the Group sold the relevant goods. The amount reversed has been included in 'cost of sales' in the income statement.

10 Financial assets at fair value through profit and loss

Majority of financial assets at fair value through profit and loss are denominated in AED and are all held for trading in listed equity securities and include the following:

Current assets	2017 AED m	2016 AED m
In U.A.E. markets	0.2	18.9
In other G.C.C. markets	0.1	0.1
	0.3	19.0

10 Financial assets at fair value through profit and loss (continued)

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

	2017 AED m	2016 AED m
At 1 January	19.0	22.4
Disposals	(13.8)	(11.4)
Fair value (loss)/gain (Note 24)	(4.9)	8.0
At 31 December	0.3	19.0

Classification of financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. See Note 2.7 for the group's other accounting policies for financial assets.

11 Trade and other receivables

Trade and other receivables comprise the following:

	2017 AED m	2016 AED m
Trade receivable	1,115.4	1,119.4
Less: provision for impairment of trade receivables	(59.7)	(50.6)
	1,055.7	1,068.8
Due from related parties (Note 28(b))	438.0	265.3
Staff receivable	1.9	3.2
Prepaid expenses	4.4	0.7
Advances to suppliers	41.5	35.2
Other receivables	6.1	6.4
	1,547.6	1,379.6

Trade receivables outstanding for more than 360 days are provided for, partially or in full, based on estimated irrecoverable amounts, determined by reference to past default, management experience and prevailing economic conditions.

As at 31 December 2017, trade receivables of AED 604.4 million, (2016: AED 649.5 million) were fully performing.

11 Trade and other receivables (continued)

As at 31 December 2017, trade receivables of AED 889.3 million (2016: AED 684.6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 AED m	2016 AED m
0 – 180 days	341.8	379.3
181 – 365 days	302.9	161.1
More than 365 days	244.6	144.2
	889.3	684.6

As of 31 December 2017, trade receivables of AED 59.7 million (2016: AED 50.6 million) were impaired and fully provided for.

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.

Management has performed the impairment test on the trade and other receivables and have concluded that the allowance maintained for doubtful debts as of 31 December 2017 and 2016 is adequate.

Movement in provision for impairment of trade receivables during the year are as follows:

	2017 AED m	2016 AED m
At 1 January	50.6	34.1
Provision for receivable impairment (Note 21)	9.1	16.7
Receivables written off	-	(0.2)
At 31 December	59.7	50.6

The carrying amounts of the Group's trade and other receivables are denominated in AED, USD and EGP.

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.

12 Cash and bank balances

	2017 AED m	2016 AED m
Bank balances:		
Current accounts	133.5	159.9
Short term bank deposits *	31.3	0.3
	164.8	160.2
Cash in hand	3.7	3.8
Cash and bank balances	168.5	164.0
By geographical area:		
In the U.A.E.	116.5	116.1
In other countries	52.0	47.9
	168.5	164.0

* Short term bank deposits have an original maturity of less than 3 months

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

	2017 AED m	2016 AED m
Bank balances:		
Current accounts	133.5	159.9
Short term bank deposits	31.3	0.3
	164.8	160.2
Cash in hand	3.7	3.8
Cash and cash equivalents	168.5	164.0

13 Share capital

	2017 AED m	2016 AED m
1,124,800,000 issued and fully paid up ordinary shares as of 31 December 2017 (1,092,000,000 ordinary shares as of 31 December 2016) at par value of AED 1 each	1,124.8	1,092.0

Pursuant to the Annual General Meeting held on 16 April 2017, the Board of Directors issued 3% bonus shares in addition to cash dividends. The bonus shares issued during the year was 32.8 million.

14 Statutory reserve

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

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

15 Voluntary reserve

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

16 Provision for employees' end of service indemnity

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

	2017 AED m	2016 AED m
Balance at the beginning of the year	44.3	42.4
Current year provision (charged to expenses)	8.0	7.8
Amounts paid during the year	(5.6)	(5.9)
Balance at the end of the year	46.7	44.3

17 Bank borrowings

	2017 AED m	2016 AED m
Overdraft	17.0	136.9
Loans	892.4	654.8
	909.4	791.7
Bank borrowings shall be repaid as follows:		
Current		
On demand or within one year	499.5	487.7
Non-current		
In the second year	228.2	198.8
In third to fifth year	181.7	105.2
	409.9	304.0
	909.4	791.7

17 Bank borrowings (continued)

The bank loan comprise of

	2017 AED m	2016 AED m
Ijara Loans	520.3	-
Other Loans	372.1	654.8
	892.4	654.8

The principal features of the bank borrowings are as follows:

(a) Ijara Loan

The Group has taken Ijara loans in order to fund the construction of various assets. Loans are secured against the assets financed and are repayable in periodic instalments. Some of the financing has been acquired in order to refinance the existing loans.

Significant security terms are as follows:

- Negative pledge over all fixed assets including buildings, plant and machinery
- Assignment of receivables for at least USD 150 million equivalent and undertaking to route them annually through Obligor's collection account with the Bank including export LC's.
- Assignment of insurance policy over stocks, plant & machinery in favour of the Bank as loss payee.

(b) Bank overdraft:

- Bank overdraft is repayable on demand. In general, such banking facilities are renewable on a regular basis.
- Interest on overdraft accounts is computed and added to the account on a monthly basis.

(c) Other loans:

The Group has obtained long and short term loans from local banks to finance the purchase of the factory's machinery and equipment and to secure working capital requirements. The loans balance as of the reporting date amounted to AED 372.1 million (2016: AED 654.8 million). Interest on these loans is calculated on monthly basis and paid separately or added to the loan balances. The loan balances are paid in monthly installments, over periods ranging from one month to six years, until full settlement.

17 Bank borrowings (continued)

(c) Loans: (continued)

The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 69 million and maintainance of certain financial ratios as agreed with the respective banks.

2. The Group has assigned insurance policies amounting to AED 291.8 million in favour of banks.

Interest rates on bank borrowings during 2017 ranged from 1.5% to 3.2% above one month EIBOR (2016: 1.5% to 3.5% above one month EIBOR).

The group's bank borrowings are denominated in the following currencies as at 31 December:

	2017 AED m	2016 AED m
USD	621.4	172.7
AED	236.6	576.7
EURO	45.2	39.8
BDT	6.2	2.5
	909.4	791.7

Net Debt reconciliation

	Other assets	**Liabilities from financing activities**	
	Cash and bank balances AED m	Bank Borrowing AED m	Total AED m
Net debt as at 1 January 2017	164.0	(791.7)	(627.7)
Cash flows	12.1	(112.0)	(99.9)
Foreign currency differences	(7.6)	(5.7)	(13.3)
	168.5	(909.4)	(740.9)

18 Trade payables and other accruals

	2017 AED m	2016 AED m
Accounts payable	83.1	91.3
Due to related parties (Note 28 (c))	5.7	12.6
Commission payable	57.2	69.0
Rebate & accruals	108.2	76.0
Accrued expenses	15.3	36.5
Leave salary and air passage	10.5	11.7
Advances from customers	25.5	11.9
Unclaimed dividend	18.0	18.7
Others	37.8	3.5
	361.3	331.2

19 Sales

	2017 AED m	2016 AED m
Sales in UAE	324.0	293.3
Sales to other GCC countries	451.1	728.1
Sales to other countries	498.3	433.1
	1,273.4	1,454.5

20 Cost of sales

	2017 AED m	2016 AED m
Raw materials (Note 9)	213.0	318.7
Wages and salary cost	104.9	103.4
Depreciation expense (Note 5)	71.6	72.7
Bonus goods and samples	149.9	132.5
Electricity and water cost	29.8	27.2
Consumption of laboratory items	27.0	29.8
Scrap	9.5	6.2
Other expenses	20.9	13.3
	626.6	703.8

21 General and administrative expenses

	2017 AED m	2016 AED m
Salaries, wages and related expenditures	41.2	39.3
Donation expenses*	2.2	3.7
Transportation and visa charges	4.6	3.8
Depreciation expense (Note 5)	8.4	9.4
Amortisation expense	5.8	3.8
Material costs	7.7	7.6
Legal and professional expenses	4.1	5.4
Provision for slow moving inventories	2.5	3.1
Provision for doubtful debts (Note 11)	9.1	16.7
Utilities	2.3	2.2
Other expenses	20.7	15.6
	108.6	110.6

* Donation expenses represent the expenses incurred by the Group as part of its corporate social responsibility activities.

22 Selling and distribution expenses

	2017 AED m	2016 AED m
Salaries, wages and related expenditures	170.6	156.4
Commission expense	110.2	132.3
Advertisement and promotion expense	50.5	38.2
Freight charges	17.4	29.4
Documentation expense	28.3	18.4
Depreciation expense (Note 5)	8.3	6.4
Material costs	22.7	19.9
Travelling expense	5.8	4.7
Custom duties	2.5	3.8
Penalty on sales	6.8	6.8
Accommodation expenses	2.0	1.9
Boarding expenses	3.2	2.1
Utilities	1.3	1.8
Rent expense	2.2	2.0
Product registration expenses	4.8	3.0
Insurance expense	0.7	1.9
Other expenses	27.9	34.7
	465.2	463.7

23 Other income

	2017 AED m	2016 AED m
Exchange Rate Gain	1.4	-
Liabilities no longer required written back	3.5	-
Sale of raw materials	1.3	2.3
Cafeteria operating income	1.8	1.8
MSD income	1.4	3.0
Other income	4.7	1.0
	14.1	8.1

24 (Loss)/gain from investments

	2017 AED m	2016 AED m
Dividends received on available-for-sale investments	1.2	2.6
Gain on sale of available-for-sale financial assets	3.7	-
(Loss)/gain on revaluation of financial assets at fair value through profit and loss (Note 10)	(4.9)	8.0
(Loss)/gain on sale of financial assets at fair value through profit and loss	(1.0)	3.7
Investments written-off (Note 8)	(0.5)	-
Recycled gain on available-for-sale financial assets	0.6	8.3
	(0.9)	22.6

25 Basic and diluted earnings per share

Basic earnings per share of AED 8.2 fils is calculated by dividing the profit for the year attributable to the shareholders of the Parent company of AED 94.9 (2016: AED 212.1 million) by the weighted average number of shares outstanding during the year of 1,124.8 million (2016: 1,092.0 million) as adjusted for 33,700 thousand bonus shares issued pursuant to Board Meeting held on 28 March 2018. The Company does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.

The basic earnings per share of AED 18.3 fils as reported for the year ended 31 December 2016 (previously reported as AED 18.9 for the year ended 31 December 2016) has been adjusted for the effect of the shares issued in 2018 as a result of the bonus shares dividends approved by shareholders as per Note 26.

26 Dividends

At the Board of Directors meeting held on 28 March 2018, a dividend was proposed of AED 3 fils per share to be distributed as bonus share dividends at 3% of share capital and the distribution of cash dividends at AED 10 fils per share, or 10% cash dividends, totalling AED 146.2 million. This is subject to approval at the Annual General Meeting of the Company.

27 Segment information

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

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

(1) Manufacturing
(2) Investments

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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

27 Segment information (continued)

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.

	2017				2016			
	Manufacturing AED m	Investments AED m	Other segments AED m	Total AED m	Manufacturing AED m	Investments AED m	Other segments AED m	Total AED m
Segment revenue	1,273.4	-	-	1,273.4	1,454.5	-	-	1,454.5
Segment result	111.8	(0.9)	(20.6)	90.3	159.6	22.6	27.9*	210.1
Depreciation expense	88.3	-	-	88.3	89.5	-	-	89.5
Share of associate's profit	-	24.7	-	24.7	-	22.1	-	22.1

	2017				2016			
	Manufacturing AED m	Investments AED m	Other segments AED m	Total AED m	Manufacturing AED m	Investments AED m	Other segments AED m	Total AED m
Segment assets	3,079.0	280.2	168.5	3,527.7	2,979.5	329.9	164.0*	3,473.4
Segment liabilities	408.0	-	909.4	1,317.4	375.5	-	791.7	1,167.2
Other segment								

* Other segment represents corporate functions of the Group.

27 Segment information (continued)

Information by geographical region

The geographical information on net sales is provided in Note 19. In accordance with IFRS 8, non current assets below are based on the geographical location in which the company holds assets. In accordance with IFRS 8, the non-current assets reported below exclude financial instruments.

	2017			
(AED m)	Total	UAE	Saudi Arabia	Others
Non-current assets				
Property, plant and equipment	1,156.9	915.9	214.0	27.0
Intangible Assets	46.5	5.9	-	40.6
Revenue	1,273.4	324.0	345.5	604.0

	2016			
(AED m)	Total	UAE	Saudi Arabia	Others
Non-current assets				
Property, plant and equipment	1,162.8	985.3	146.4	31.1
Intangible Assets	49.9	7.7	-	42.2
Revenue	1454.5	293.3	468.7	692.5

The Company has sales to two customers whose sales individually are more than 10% of the total external sales. Total amount of sales to these customers amounts to AED 697.7 million (2016: AED 762.0 million). These revenues are included under manufacturing segment. Included under "others" intangibles amounting to AED 24.0 million (2016: AED 24.6 million) in Egypt and AED 16.6 million (2016: AED 17.6 million) in Bangladesh. There are no other non-current assets or revenue included in "Others" which are more than 10% of the total segment non currents assets or total revenue.

28 Related party transactions and balances

Related parties comprise the company's majority shareholders, key management personnel, subsidiaries, associates, directors and other businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either Group management, or its Board of Directors.

28 Related party transactions and balances (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:

	2017 AED m	2016 AED m
Sales to associate	362.3	282.4
Purchases from affiliates	13.9	29.3
Capital contribution in a subsidiary	98.9	68.9
Capital contribution by Cigalah in Julphar Saudi	30.3	49.4

During the period, the Group has acquired the remaining 49% shares in Gulf Inject L.L.C from Planet Pharmacies L.L.C, a related party. The total consideration was AED 24.5m and was reduced from receivable from Planet Pharmacies L.L.C. As a result of additional investment, the Company increased its investment in subsidiary in its standalone financial statements by AED 24.5m and also reduced the minority interest in the consolidated financial statements by AED 19.7m.

	2017 AED m	2016 AED m
Compensation to key management personnel		
Short term benefits	10.5	11.0
Long term benefits	0.3	0.1
Board of Directors' remuneration	5.1	3.3

(b) Due from related parties

Planet Pharmacies L.L.C. (Associate)	438.0	265.3

(c) Due to related parties

Majan Printing and Packaging Company L.L.C. (Affiliate)	5.7	12.6

No bank guarantees are provided to/taken from related parties against balances due to/from them. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

29 Commitments and contingent liabilities

	2017 AED m	2016 AED m
Capital commitments	27.7	24.4
Letters of credit	18.4	13.2
Letters of guarantee	61.2	60.1

30 Financial instruments

The accounting policies for the financial instruments have been applied to the line items below:

	Financial assets			
	Loans and receivables AED m	**Held for trading** AED m	**Available for sale** AED m	**Total** AED m
At 31 December 2017				
Assets				
Available-for-sale financial assets (Note 8)	-	-	11.5	11.5
Financial assets at fair value through profit and loss (Note 10)	-	0.3	-	0.3
Trade and other receivables (excluding advance to suppliers, staff receivable and prepaid expenses) (Note 11)	1,499.8	-	-	1,499.8
Bank balances and cash (Note 12)	168.5	-	-	168.5
	1,668.3	0.3	11.5	1,680.1
At 31 December 2016				
Assets				
Available-for-sale financial assets(Note 8)	-	-	47.2	47.2
Financial assets at fair value through profit and loss (Note 10)	-	19.0	-	19.0
Trade and other receivables (excluding advance to suppliers, staff receivable and prepaid expenses) (Note 11)	1,340.5	-	-	1,340.5
Bank balances and cash (Note 12)	164.0	-	-	164.0
	1,504.5	19.0	47.2	1,570.7

30 Financial instruments (continued)

	Financial liabilities at amortised cost AED m
31 December 2017	
Bank borrowings (Note 17)	909.4
Trade payables and accruals (excluding rebates, leave salary and air passage and accruals and advance from customers) (Note 18)	217.1
	1,126.5
31 December 2016	
Bank borrowings (Note 17)	791.8
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advance from customers) (Note 18)	231.6
	1,023.4

31 Details of non-wholly owned subsidiaries that have material non-controlling interests

The following table summarises the financial information relating the Group's subsidiaries that have material NCI, before any intra-group eliminations.
See Note 2.3 for transactions with NCI.

Summarised balance sheet

	Julphar Saudi Arabia L.L.C.	
	2017 AED m	2016 AED m
At 31 December:		
Current Assets	5.8	8.7
Non-Current Assets	208.7	146.2
Current Liabilities	(8.0)	(2.9)
Non-Current Liabilities	(0.5)	-
Equity Attributable to:		
Owners of the parent company	206.0	152.0
Non-controlling interest	-	-

31 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised income statement

	Julphar Saudi Arabia L.L.C.	
	2017 AED m	2016 AED m
Revenue	-	-
Expenses	(8.5)	(2.8)
Loss for the year	(8.5)	(2.8)
Attributable to:		
Owners of the parent company	(8.5)	(2.8)
Non-controlling interest	-	-

Summarised balance sheet

	Julphar Pharmaceuticals P.L.C. - Ethiopia		RAK Pharmaceuticals Pvt. Ltd. - Bangladesh	
	2017 AED m	2016 AED m	2017 AED m	2016 AED m
At 31 December:				
Current Assets	31.3	32.7	8.3	7.7
Non-Current Assets	8.2	11.0	18.7	20.2
Current Liabilities	(18.3)	(21.4)	(9.1)	(5.1)
Non-Current Liabilities	-	-	(2.3)	(2.3)
Equity Attributable to:				
Owners of the parent company	21.2	22.3	15.6	20.5
Non-controlling interest	-	-	-	-

31 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised income statement

	Julphar Pharmaceuticals P.L.C. - Ethiopia		RAK Pharmaceuticals Pvt. Ltd. - Bangladesh	
	2017 AED m	2016 AED m	2017 AED m	2016 AED m
Revenue	17.5	15.3	30.1	27.8
Expenses	(14.1)	(12.9)	(34.3)	(28.6)
Profit/(loss) for the year	3.4	2.4	(4.2)	(0.2)
Attributable to:				
Owners of the parent company	3.4	2.4	(4.2)	(0.2)
Non-controlling interest	-	-	-	-

On 3 May 2017, the Group acquired an additional 49% of the issued shares of Gulf Inject L.L.C. for AED 24.5 million from non-controlling interest. Immediately prior to the purchase, the carrying amount of the existing non-controlling interest in Gulf Inject was AED 19.7 million. The effect on the equity attributable to the owners of Gulf Inject L.L.C during the year is summarised as follows:

	AED m
Carrying amount of non-controlling interest acquired	19.7
Consideration paid to acquire non-controlling interest	(24.5)
Excess of consideration paid recognized in the transaction with non-controlling interest reserve within equity	(4.8)

32 Non-cash transactions

The following are the significant non-cash transactions which has been adjusted in the cash flow statements

	2017 AED'm
Offset of receivable from an associate against purchase of investment (Note 28)	24.5