Gulf Pharmaceutical Industries P.S.C.

Directors' report and consolidated financial statements for the year ended 31 December 2018

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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 2018.

Financial Performance

Julphar recorded sales of AED 772 million, a decline of 33% against 2017 sales of AED 1.15 billion.

The net loss is AED 618 million for the year ended 31 December 2018 as compared to profit of AED 90 million in the previous year.

Outlook 2019

As we move forward, we will ensure that we are well-equipped to respond to the constantly evolving marketplace. A key part of our strategy for 2019 is to resume sales in Saudi Arabia and consolidate our position in other markets. We have also started a Transformation Program that will make the company more competitive in the new business reality. We will forge new alliances, launch new products and optimize our portfolio, all of which will have a positive impact on long-term performance. We have been conducting a comprehensive review of all areas of our business to identify cost savings and we have begun to reorganize our workforce. A number of new senior appointments will be made to our Management Team in 2019 who will be charged with pushing the company's new global strategy. We continue to roll-out further cost-saving programs, which will position our business well to maximize cash flow generation.

Proposed Dividend

Due to the losses of the company, the Board has not recommended any dividend declaration to the shareholders of the Company.

Auditors

M/s PricewaterhouseCoopers will retire and new auditors will be appointed in the AGM.

Acknowledgements

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

On behalf of the Board

Sh, Saqer Humaid Al Qasimi
Chairman
29th May 2019

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

Report on the audit of the consolidated financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, 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") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 2018;
- 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 qualified opinion

Investment in an associate:

As disclosed in note 7 to the consolidated financial statements, Planet Pharmacies L.L.C. ("Planet") which is a 40% owned associate of the Group, has two subsidiaries in the Kingdom of Saudi Arabia (KSA) which are held under nominee shareholder arrangements. During 2018, one of the two nominee shareholders took control of the subsidiaries in KSA by appointing herself as the General Manager and took actions, which according to the Group she was not empowered to do under the nominee shareholder agreement. As a result of the nominee shareholder's actions, financial information for the two subsidiaries as at and for the year ended 31 December 2018 has not been made available to us. Although, a favourable judgement was issued in April 2019, insufficient time has elapsed to allow Planet and its subsidiaries to prepare the required financial information for consolidation and audit.

We were therefore unable to perform the necessary audit procedures on Planet's consolidated financial statements, to obtain sufficient appropriate audit evidence about the carrying amount of the Group's investment in the associate of AED 283.7 million as at 31 December 2018, the Group's share of profit from the associate of AED 15.3 million for the year then ended and the adequacy of the related disclosures. Consequently, we are unable to determine whether any adjustment to these amounts are necessary.

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 qualified 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, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Material uncertainty relating to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred losses of AED 618 million during the year ended 31 December 2018 and as of that date, its accumulated losses amounted to AED 562 million. In addition, that note indicates that the ban imposed on the Group's products by the Saudi Food Drug Authority continues to have a negative impact on the Group's trading performance and cash flows. These conditions along with other matters referred to in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Key Audit Matters	• Deferred revenue • Adequacy of allowance for doubtful trade receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; 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 the 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the *Basis for qualified opinion* and *Material uncertainty relating to going concern* sections above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Deferred revenue	
The Group provides bonus goods to its distributors as part of its marketing activities. These arrangements are accounted for as a separate performance obligation as per IFRS 15. Factors affecting the conclusion whether an arrangement has a single or multiple performance obligations include, among other things, customer expectation from the contract, distinct nature of products and services and degree of integration or inter-relation between various products and services.	We obtained from management an understanding of the internal controls over revenue recognition. In respect of deferred revenue, we performed the following procedures: • traced the sales and bonus goods (amount and quantity) from the sales register to the deferred revenue calculation and tested sales invoices on sample basis;

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Deferred revenue and liability (continued)	
As a result of IFRS 15 adoption, the Group has restated the financial statements and the impact was taken in the opening retained earnings. We considered deferred revenue to be a key audit matter because the timing of revenue recognition, estimate of bonus goods to be distributed and the amount of deferred revenue to be recorded, are matters of significant management judgment. *Refer to Note 2.17 to the consolidated financial statements for the accounting policy on revenue recognition, Note 4 for significant estimates and judgments related to revenue recognition and Note 19 for revenue recognised during the year ended 31 December 2018. Refer Note 33 for the impact of IFRS 15 on opening retained earnings.*	• obtained a listing of debit notes received during the year from distributors related to distribution of bonus goods and verified the accuracy by testing them to the supporting documents on a sample basis. • evaluated the adjustment for debit notes not yet received, assessed management's assumptions used to develop the adjustment and the basis for amount recognized; • assessed that the effective selling price, which takes into account issuance of bonus goods, used to compute the deferred liability balance is reasonable; • Reviewed the movement of the deferred liability; and • recomputed the closing deferred revenue balance in the movement schedule and agreed it to the consolidated financial statements. We also checked that appropriate disclosures had been made in the consolidated financial statements in compliance with financial reporting standards.
Adequacy of allowance for doubtful trade receivables	
During 2018, the Saudi Food and Drug Authority (SFDA) imposed a temporary ban to export the Company's products to the Kingdom of Saudi Arabia (KSA). The Company deals with just one distributor in KSA and therefore all products exported to KSA are shipped to that distributor. As a consequence of this ban, the trading activities between the Company and its Saudi distributor have diminished significantly. Furthermore, the respective receivable ageing has deteriorated notably. The magnitude of any resultant impairment against the outstanding amounts could be material to the consolidated financial statements. 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. *Refer to Note 11 of the consolidated financial statements for details of trade receivables included within trade and other receivables.*	We discussed with management their assessment of the recoverability of individual balances within trade receivables and the basis of their assessment. We assessed the ageing of trade receivables and general collection period using the days sales outstanding ratio. For significant customers, we considered the recoverability of receivables overdue for more than six months. We corroborated management's assessment through our analysis of the sales and collection activity during the year, subsequent collections, evidence of relationship with the customers and customer's financial stability. We obtained, where possible, independent confirmations from major customers covering a majority of the total overdue balances. For doubtful receivable balances, we checked that an impairment provision had been created in accordance with the requirement of IFRS 9 expected credit loss model and agreed it to the Group's consolidated financial statements. We assessed the appropriateness of the related disclosures in the consolidated financial statements.

Independent auditors' 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 the Directors' report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not 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. As described in the *Basis for qualified opinion* section above, as auditors we were unable to have access to the financial information of Planet's subsidiaries in KSA, and therefore unable to obtain sufficient appropriate audit evidence on Group's investment in Planet. We are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

(v) note 10 to the consolidated financial statements discloses the investment in shares during the financial year ended 31 December 2018;

(vi) note 29 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 2018, 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 2018; and

(viii) note 21 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2018.

PricewaterhouseCoopers
30 May 2019

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

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Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of financial position

	Note	As at 31 December 2018 AED m	2017 AED m
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,126.4	1,156.9
Intangible assets	6	43.6	46.5
Investment in an associate	7	283.7	268.4
Available-for-sale-financial assets	8	-	11.5
		1,453.7	1,483.3
Current assets			
Inventories	9	333.4	328.0
Financial assets at fair value through profit or loss	10	21.3	0.3
Trade and other receivables	11	971.7	1,547.6
Cash and bank balances	12	87.8	168.5
		1,414.2	2,044.4
Total assets		2,867.9	3,527.7
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1,158.5	1,124.8
Statutory reserve	14	562.4	562.4
Voluntary reserve	15	184.8	184.8
Foreign currency translation reserve		(138.1)	(136.6)
Fair value reserve		-	2.0
Accumulated losses / retained earnings		(561.7)	328.3
Capital and reserves attributable to owners of the company		1,205.9	2,065.7
Non-controlling interest		174.6	144.6
Net equity		1,380.5	2,210.3
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service indemnity	16	69.2	46.7
Bank borrowings	17	15.8	409.9
		85.0	456.6
Current liabilities			
Bank borrowings	17	786.0	499.5
Trade payables and other accruals	18	325.4	361.3
Deferred revenue	33.2	291.0	-
		1,402.4	860.8
Total liabilities		1,487.4	1,317.4
Total equity and liabilities		2,867.9	3,527.7

These consolidated financial statements were approved by the Board of Directors on 29th May 2019 and signed on its behalf by:

Sh. Saqer Humaid Al Qasimi
Chairman

Jerome Carle
General Manager

The notes on pages 13 to 73 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of income

	Note	Year ended 31 December 2018 AED m	2017 AED m
Sales	19	772.3	1,154.6
Cost of sales	20	(608.8)	(626.6)
Gross profit		163.5	528.0
General and administrative expenses	21	(100.9)	(99.5)
Selling and distribution expenses	22	(330.8)	(346.4)
Impairment of financial asset	11	(353.9)	(9.1)
Other income	23	11.3	14.1
Gain/(loss) from investments	24	0.5	(0.9)
Share of profit from investment accounted for using the equity method	7	15.3	24.7
Operating (loss)/profit		(595.0)	110.9
Finance income	25	5.1	5.1
Finance costs	25	(27.9)	(25.7)
Finance costs – net		(22.8)	(20.6)
(Loss)/profit for the year		(617.8)	90.3
(Loss)/profit attributable to:			
Owners of the company		(612.6)	94.9
Non-controlling interests		(5.2)	(4.6)
		(617.8)	90.3
Basic and diluted (loss)/earning per share (in UAE fils)	26	(52.9)	8.2

Gulf Pharmaceutical Industries P.S.C.

Consolidated statement of other comprehensive income

	Year ended 31 December 2018 AED m	2017 AED m
(Loss)/profit for the year	(617.8)	90.3
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Change in the fair value of available-for-sale financial assets	-	(0.1)
Reclassification adjustment on disposal of available for sale financial assets	-	(0.6)
	-	(0.7)
Currency translation differences	(1.5)	(16.6)
Total other comprehensive loss	(1.5)	(17.3)
Total comprehensive (loss)/income for the year	(619.3)	73.0
Attributable to:		
Owners of the company	(614.1)	77.6
Non-controlling interests	(5.2)	(4.6)
	(619.3)	73.0

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 / Accumulated losses AED m	Attributable to owners of the company AED m	Non-controlling interest AED m	Total AED m
At 1 January 2017	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 (Notes 13 and 27	32.8	-	-	-	-	(32.8)	-	-	-
Cash dividends for 2017 (Notes 13 and 27)	-	-	-	-	-	(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
Change in accounting policy IFRS 9 (Note 33)	-	-	-	-	(2.0)	5.7	3.7	-	3.7
Change in accounting policy IFRS 15 (Note 33)	-	-	-	-	-	(137.0)	(137.0)	-	(137.0)
At 1 January 2018 (restated)	1,124.8	562.4	184.8	(136.6)	-	197.0	1,932.4	144.6	2,077.0
Loss for the year	-	-	-	-	-	(612.6)	(612.6)	(5.2)	(617.8)
Other comprehensive loss for the year	-	-	-	(1.5)	-	-	(1.5)	-	(1.5)
Total comprehensive loss for the year	-	-	-	(1.5)	-	(612.6)	(614.1)	(5.2)	(619.3)
Issuance of bonus shares (Notes 13 and 27	33.7	-	-	-	-	(33.7)	-	-	-
Cash dividends for 2018 (Notes 13 and 27)	-	-	-	-	-	(112.4)	(112.4)	-	(112.4)
Movement in non-controlling interest	-	-	-	-	-	-	-	35.2	35.2
	33.7	-	-	-	-	(146.1)	(112.4)	35.2	(77.2)
Balance at 31 December 2018	1,158.5	562.4	184.8	(138.1)	-	(561.7)	1,205.9	174.6	1,380.5

The notes on pages 13 to 73 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 2018 AED m	2017 AED m
Cash flow from operating activities:			
(Loss)/profit for the year		(617.8)	90.3
Adjustments for:			
Depreciation of property, plant and equipment	5	84.6	88.3
Amortisation of intangible assets	6	5.6	5.6
Share of profit from investment in an associate	7	(15.3)	(24.7)
Provision for slow-moving inventories – net	9	-	(14.6)
Provision for impairment of receivables	11	353.9	9.1
Gain on sale of property, plant and equipment		-	0.1
Loss on sale of financial asset at FVTPL		1.3	1.0
Loss on revaluation of financial asset at FVTPL		1.1	4.9
Gain on sale of available-for-sale financial assets		-	(3.0)
Recycled gain on available-for-sale financial assets		-	(0.6)
Available for sale financial assets written off	8	-	0.5
Provision for employees' end of service indemnity	16	27.8	8.0
Dividend income		(2.9)	(1.2)
Finance income		(5.1)	(5.1)
Finance costs		27.9	25.7
Operating cash flow before payment of end of service benefits and changes in working capital		(138.9)	184.3
Employees end of service benefits paid	16	(5.3)	(5.6)
Changes in working capital:			
Trade and other receivables		237.6	(201.6)
Inventories		(5.4)	73.6
Trade payables and accruals		91.8	30.5
Net cash generated from operating activities		179.8	81.2
Cash flows from investing activities:			
Additions to property, plant and equipment	5	(51.8)	(87.5)
Proceeds from disposal of available-for-sale financial assets		-	38.8
Proceeds from sale of financial asset at FVTPL		19.4	12.8
Additions to financial assets at profit and loss		(16.9)	-
Dividends received from investment accounted for using the equity method		-	20.0
Dividends received		2.9	1.2
Net cash used in investing activities		(46.4)	(14.7)
Cash flows from financing activities:			
Proceeds from bank borrowings		285.7	750.4
Repayment of loans		(393.3)	(638.4)
Dividends paid		(112.4)	(175.4)
Increase in non-controlling interest		35.2	30.3
Finance income received		5.1	5.1
Interest paid		(27.9)	(25.7)
Net cash used in financing activities		(207.6)	(53.7)
Net (decrease)/increase in cash and cash equivalents		(74.2)	12.8
Currency translation differences		(6.5)	(8.3)
Cash and cash equivalents, at the beginning of the year	12	168.5	164.0
Cash and cash equivalents, end of the year	12	87.8	168.5

For significant non-cash transactions, refer to Note 34, 'Non-cash transactions'

The notes on pages 13 to 73 form an integral part of these consolidated financial statements.

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.

Going concern:

In September 2018, the Saudi Food Drug Authority (SFDA) performed a physical inspection of the Company's plant in Ras Al Khaimah and as a result of their inspection, they imposed a temporary ban on the Company exporting its products to the Kingdom of Saudi Arabia (KSA). Products shipped to KSA prior to the ban continue to be sold in that market. Since the ban began, management has been working closely with the SFDA to address all of the issues raised in the SFDA report. The Company expects that a re-inspection by the SFDA is imminent and is confident that the ban will soon be lifted. KSA is a major market for the Company with sales to KSA making up approximately 24% percent of total sales in 2017.

Furthermore, during the latter part of 2018 and in early 2019, certain batches of a variety of products were recalled by the United Arab Emirates Ministry of Health (MOH) for stability reasons. Management has taken rectification measures to fully address the issues raised by MOH.

During the year ended 31 December 2018, the Group recorded losses amounting to AED 617.8 million. The ban on exporting products to KSA was a major contributing factor to the 2018 losses. The ban also caused the gross profit margin to decrease. In addition to the on-going strenuous efforts that management is making to get the SFDA ban lifted, the Company is undertaking various marketing initiatives and is in negotiations with several customers in the Middle East and North Africa region to notably grow trading activities and to expand market share in some of the countries in that region. Furthermore, the Company is in discussions with local banks to potentially increase existing facilities. Should the SFDA ban continue to be enforced for the foreseeable future and in the absence of a significant increase in profitable trading with existing or new customers, the Group may require additional financial support from the shareholders or additional financing from lending institutions.

These consolidated financial statements have been prepared on a going concern basis on the assumption that management expects that the SFDA ban will soon be lifted, trading activities with existing or new customers will improve, and, if required, additional financing facilities will be obtained. However, in the absence of these, or a combination of them, being achieved, the circumstances outlined above give rise to a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

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.

2.1.1 Statement of compliance

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).

2.1.2 Basis of preparation

(a) Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention as modified by the fair value of financial assets at fair value through profit or loss.

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

(b) New and amended standards adopted by the Group

The following new standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting these standards:

- IFRS 9 "Financial Instruments" and
- IFRS 15 "Revenue from Contracts with Customers"

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 33, Note 2.7 and Note 2.17.

(c) New standards and amendments not early adopted by the Group

- IFRS 16, 'Leases', (effective from 1 January 2019).

The new standard eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment.

2 Summary of significant accounting policies (continued)

2.1.2 Basis of preparation (continued)

(c) New standards and amendments not early adopted by the Group (continued)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

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:

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

(c) Group entities (continued)

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

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

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the group (refer to Note 2.25).

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 Principles of consolidation and equity accounting (continued)

Details of the Company's subsidiaries as of 31 December 2018 were as follows:

Serial No.	Name of subsidiary	Place of incorporation and operation	Percentage of ownership 2018	2017	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.	Gulf Inject L.L.C.	Dubai – UAE	100%	100%	Manufacturing of medical supplies
4.	RAK Pharmaceuticals Pvt. Ltd.	Dhaka – Bangladesh	50.5%	50.5%	Manufacturing of medicines
5.	Julphar Saudi Arabia L.L.C.	Rabigh – Saudi Arabia	51%	51%	Manufacturing of medicines
6.	Julphar Egypt Company L.L.C.	Cairo – Egypt	100%	100%	Distributors of Julphar's products in Egypt
7.	Julphar Diabetes L.L.C.	Ras Al Khaimah – U.A.E.	100%	100%	Manufacturer of medicines
8.	Julphar General Trading L.L.C.	Ras Al Khaimah – U.A.E.	100%	100%	General Trading
9.	Mena Cool Machinery Trading	Ras Al Khaimah – U.A.E.	100%	100%	General Trading
10.	Julphar Life Science L.L.C	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
Leasehold improvements	10-25

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

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

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

2 Summary of significant accounting policies (continued)

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.

2.7 Financial assets

The application of the new standard required the management to apply the following new accounting policies:

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

(a) *Classification* (continued)

The classification depends on the Group's business model for managing the financial assets that whether the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the cash flows that whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Management determines the classification of its investment at initial recognition.

(b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Financial assets at fair value through other comprehensive income (FVOCI) are carried at fair value. After initial measurement, the Group present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

2 Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

(d) Impairment of financial assets

The Group has the following significant types of financial assets that are subject to IFRS 9's new expected credit loss (ECL) model

- Trade receivables;
- Due from related parties;
- Other receivables; and
- Cash and bank balances

For trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of these receivables.

To measure the expected credit losses, trade receivables have been grouped based shared credit risk characteristics and the days past due. The Group has established a provision matrix that is based on the Group's historical credit loss experience, which is adjusted for factors that are specific to the debtors, general economic conditions, forward looking macroeconomic data including time value of money and expected cash flows from the realization of collateral, if any.

A default on the financial asset is when the counterparty fails to make contractual payment within 90 days when they fall due. Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited against the same line item.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Other financial assets include related party balances and other receivables. The Group monitors all financial assets to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group measures the loss allowance based on lifetime expected credit loss model.

In assessing whether the credit risk on a financial statements has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information.

2 Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

(e) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, which is as follows:

Classification

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

i. 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.

ii. Loans and receivables

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

iii. 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 Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

Recognition, de-recognition and measurement

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

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

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

Impairment of financial assets

i. 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.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

Impairment of financial assets (continued)

i. Assets carried at amortised cost (continued)

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

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

ii. 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.

(f) 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 Summary of significant accounting policies (continued)

2.8 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.

2.9 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.

The Group books impairment of trade receivables on the basis of expected credit loss model. Refer Note 2.7 for Groups policy for impairment of financial assets.

2.10 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.

2.11 Share capital

Ordinary shares are classified as equity.

2 Summary of significant accounting policies (continued)

2.12 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.

2.13 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.

2.14 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.

2 Summary of significant accounting policies (continued)

2.14 Provisions (continued)

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.

2.15 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.

2.16 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.

2 Summary of significant accounting policies (continued)

2.16 Borrowing costs (continued)

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.

2.17 Revenue recognition

The application of the new standard requires management to apply the following new accounting policies:

Revenue is recognised in the income statement when goods or services are supplied or made available to the customer against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Revenue relating to free goods to be provided in the future relating to current sales are deferred until the free goods are provided. The methodology and assumptions used to estimate rebates and free goods are monitored and adjusted regularly in the light of constructive obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using the Distributors and in-house analysis, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue. The following specific recognition criteria must also be met before revenue is recognised:

(i) Revenue from sale of goods

The Group recognises revenue from sale of good based on a five step model as per IFRS 15:

1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

2 Summary of significant accounting policies (continued)

2.17 Revenue recognition (continued)

(i) Revenue from sale of goods (continued)

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. Accordingly, the Group has concluded that for majority of its arrangements where the Group supply goods to the customers, none of the above criteria met of recognizing the revenue overtime. Therefore, concluded that revenue to be recognized at point in time.

(ii) Accounting policies applied until 31 December 2017

The Group has applied IFRS 15 retrospectively, but has elected not to restate comparative information. The impact of adopting the accounting standard did not have a material impact on the consolidated financial statements. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, which is as follows:

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.

2 Summary of significant accounting policies (continued)

2.17 Revenue recognition (continued)

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.

2.18 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.

2.19 De-recognition of financial instruments

(a) Financial assets

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

- he 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.

2 Summary of significant accounting policies (continued)

2.19 De-recognition of financial instruments (continued)

(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.

2.20 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.

2.21 Dividends

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

2.22 Dividend distribution

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

2.23 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, if any (Note 26).

2 Summary of significant accounting policies (continued)

2.23 Earnings per share (continued)

(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.

2.24 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.

2.25 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 foreign currency risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's management.

(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. Further, balances in Bangladeshi Taka, Ethiopian Birr and Saudi Riyal 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).

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
2018			
Cash and cash equivalents	1.0	17.3	18.3
Trade receivables	-	31.9	31.9
Bank borrowings	(41.5)	-	(41.5)
Net balance sheet exposure	(40.5)	49.2	8.7
2017			
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)

3 Financial risk management

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The table below details the Group's sensitivity to a 5% increase or decrease in AED against the Euro and 5% 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.

	2018		2017	
	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%	(1.9)	+5%	(0.7)
	-5%	1.9	-5%	0.7
EGP	+5%	2.3	+5%	1.5
	-5%	(2.3)	-5%	(1.5)

(ii) Price risk

The Group is exposed to equity securities price risk through its investments at fair value through profit and loss. To manage the risk the Group diversifies and/or places such investments with financially sound institutions.

At the reporting date if the prices of investments in equity instruments are 10% higher/lower there will not be a significant change in the profit and loss of the Group.

(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 2.5% to 4% per annum (2017: from 1% to 2% per annum).

3 Financial risk management

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

If interest rates on bank borrowings during the year had been 50 basis points higher/lower with all other variables were held constant, the Group's loss for the year ended 31 December 2018 and equity as at 31 December 2018 would decrease/increase by approximately AED 3.95 million (2017: AED 2.0 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 financial assets at fair value through profit & loss (Note 10), 'trade and other receivables' (Note 11) ,'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.

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 305 million being sales to two main customers (2017: AED 697.7 million being sales to two main customers). Total trade receivables due from the above two main customers amounted to AED 599.6 million as at 31 December 2018 (2017: AED 1,055.3 million). For credit risk related to trade and other receivables, please refer Note 11.

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.

	2018 AED m	2017 AED m
Available-for-sale-financial assets (Note 8)	-	11.5
Financial assets at fair value through profit & loss (Note 10)	21.3	0.3
Trade and other receivables (Note 11) (excluding prepayments, staff receivable, VAT receivable and advance from suppliers)	913.5	1,499.8
Cash and cash equivalents (Note 12)	87.8	168.5
	1,022.6	1,680.1

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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:

Cash and cash equivalents	External rating	2018 AED m	2017 AED m
Counterparty 1	A1	7.3	35.6
Counterparty 2	A2	0.9	3.7
Counterparty 3	A3	1.1	45.9
Counterparty 5	Aa3	15.1	39.7
Counterparty 6	B1	0.8	0.9
Counterparty 7	B3	4.2	5.8
Counterparty 8	Ba2	15.8	14.2
Counterparty 10	Baa1	-	0.3
Counterparty 11	Baa2	3.6	4.2
Others *	Unrated	35.2	14.5
		84.0	164.8

* 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 2018			
Financial assets at fair value through profit and loss (Note 10)	21.3	-	21.3
Trade and other receivables (Note 11) (excluding prepayments, staff receivable, VAT receivable, and advance to suppliers)	913.5	-	913.5
Cash and cash equivalents (Note 12)	87.8	-	87.8
	1,022.6	-	1,022.6
31 December 2017			
Available-for-sale financial asset (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 prepayments, staff receivable and advance to suppliers) (Note 11)	1,499.8	-	1,499.8
Cash and cash equivalents (Note 12)	168.5	-	168.5
	1,668.6	11.5	1,680.1

Financial liabilities

	Within 1 year AED m	2 years – 5 years AED m	Total AED m
31 December 2018			
Bank borrowings (Note 17)	786.0	15.8	801.8
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advances from customers)	295.3	-	295.3
Total	1,081.3	15.8	1,097.1
31 December 2017			
Bank borrowings (Note 17)	499.5	409.9	909.4
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advances from customers)	217.1	-	217.1
Total	716.6	409.9	1,126.5

3 Financial risk management (continued)

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as 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:

	2018 AED m	2017 AED m
Borrowings	801.8	909.4
Cash and cash equivalents	(87.8)	(168.5)
Net debt	714.0	740.9
Equity	1,380.5	2,210.3
Net debt to equity ratio (times)	0.5	0.3

3.3 Fair value estimation

The following table 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 2018	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)	1.8	-	19.5	21.3

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
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	6.7	11.8

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 2018 AED m	Fair value as at 31 December 2017 AED m	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Quoted equity investments – AFS	-	-	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	NA
Mutual funds – AFS	-	4.8	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	1.8	0.3	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	NA
Un quoted equity investments – FVTPL / AFS	19.5	6.7	Level 3	Inputs for the asset or liability that are not based on observable market data. Fair value is assessed on the basis of discounted cash flow technique	Discount rate	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 always have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are below:

(a) Useful lives of intangible assets

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

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

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

(b) Allowance for doubtful debts

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

(c) Allowance for slow moving and obsolete inventories

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

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

(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.

(e) Revenue recognition and deferred revenue

Revenue is deferred by free bonus goods given or expected to be given, which vary by product arrangements and buying groups. These arrangements with the Distributors are dependent upon the submission of claims some time after the initial recognition of the sale. Expected free goods to be provided for marketing activities are deferred at the time of sale, based on available information. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of product sales mix. The level of deferred revenue is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using distributor and in-house analysis, market research data and internally generated information.

Deferred revenue is computed on the basis of effective selling price. The effective selling price is dependent on value of debit notes received and the average selling price of goods sold. An increase or decrease in the average selling price by 3% will decrease / increase the loss for the year with a corresponding decrease / increase in the amount of deferred revenue as at 31 December 2018 by approximately AED 19.8 million.

In respect of sales to a distributor, a key consideration in respect of revenue recognition is to determine whether the Group has effectively transferred the control in goods to the distributors. Accordingly in the Group's judgement the revenue is recognized when the control is effectively transferred to distributor on account of following:

a. the distributor is primarily responsible for fulfilling the promise to provide the specified good or service to the end customers ;
b. the distributor has inventory risk before the specified good or service has been transferred to the end customer or after transfer of control to the customer ; and
c. the distributor has discretion in establishing the price for the specified good or service.

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 2017	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
Additions	-	0.5	6.3	0.5	0.4	-	1.3	-	42.8	51.8
Disposals	-	-	-	-	(0.8)	-	-	-	-	(0.8)
Exchange rate reserve	(0.1)	(0.2)	1.6	-	0.1	-	-	-	-	1.4
At 31 December 2018	**63.7**	**542.7**	**1,073.9**	**125.6**	**33.1**	**17.1**	**29.4**	**10.3**	**189.6**	**2,085.4**
Accumulated depreciation										
At 1 January 2017	-	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
Charge for the year	-	19.0	54.4	6.6	0.9	0.9	2.6	0.2	-	84.6
Disposals	-	-	-	-	(0.8)	-	-	-	-	(0.8)
Exchange rate reserve	-	-	1.1	-	(0.2)	0.1	(1.9)	-	-	(0.9)
At 31 December 2018	**-**	**218.3**	**568.2**	**106.8**	**31.8**	**17.1**	**8.7**	**8.1**	**-**	**959.0**
Net book amount										
At 31 December 2018	63.7	324.4	505.7	18.8	1.3	-	20.7	2.2	189.6	1,126.4
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

5 Property, plant and equipment (continued)

Depreciation for the year charged to cost of sales (Note 20), selling and distribution expenses (Note 22) and general and administration expenses (Note 21) amounts to AED 70.2 million, AED 6.4 million and AED 8.0 million, respectively. (2017: AED 71.6 million, AED 8.3 million and AED 8.4 million), respectively.

Capital work-in-progress mainly represents construction of new plant in Saudi Arabia for the purpose of production of generic medicine. No transfer has been made during the year.

6 Intangible assets

	Licenses and permits AED m	Developed products AED m	Others AED m	Total AED m
Cost				
At 1 January 2017	30.2	19.6	7.7	57.5
Foreign currency translation reserve	2.2	-	-	2.2
At 31 December 2017	32.4	19.6	7.7	59.7
Foreign currency translation reserve	2.7	-	-	2.7
At 31 December 2018	35.1	19.6	7.7	62.4
Accumulated amortisation				
At 1 January 2017	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
Charge for the year	2.8	1.0	1.8	5.6
At 31 December 2018	11.2	4.0	3.6	18.8
Net book value				
At 31 December 2018	23.9	15.6	4.1	43.6
At 31 December 2017	24.0	16.6	5.9	46.5

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.

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 and operation	Percentage of ownership	31 December 2018 AED m	31 December 2017 AED m
Planet Pharmacies L.L.C.	UAE	40%	283.7	268.4

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

	2018 AED m	2017 AED m
At 1 January	268.4	263.7
Share of the associate's profit	15.3	24.7
Dividends received during the year	-	(20.0)
At 31 December	283.7	268.4

Planet Pharmacies L.L.C ("Planet") has two subsidiaries in the Kingdom of Saudi Arabia (KSA), which are held under nominee shareholder arrangements. During 2018, one of the two nominee shareholders ("nominee shareholder") of Planet's subsidiaries, took control of the subsidiaries in KSA by appointing herself as the General Manager and took actions which she is not empowered to do under the nominee shareholder agreements. The Group considered this to be unlawful and, as a result filed a case against the nominee shareholder regarding her self-appointment as the General Manager and for claiming outright ownership of the subsidiaries. The case was heard by the court in KSA and on 10 April 2019, Planet won the case around the ownership claim. The court removed the nominee shareholder as a shareholder. The court upheld the nominee agreement and granted the nominee shareholder the right to appeal within 30 days beginning from 25 April 2019, the date of receipt of the judgement. The nominee shareholder has lodged an appeal during this period. Planet is now awaiting the notification of the date of the appeal hearing.

8 Available-for-sale financial assets

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

	2018 AED m	2017 AED m
At 1 January	11.5	47.2
Written off during the year	-	(0.5)
Disposals during the year	-	(35.1)
Change in the fair value of available-for-sale financial assets	-	(0.1)
Reclassified to fair value through profit or loss (Note 10)	(11.5)	-
At 31 December	-	11.5

9 Inventories

	2018 AED m	2017 AED m
Raw materials	105.9	125.0
Packing materials	52.8	50.6
Spare parts	30.0	32.3
Work-in-progress	29.0	16.5
Finished goods	101.2	99.4
Consumables	16.0	12.5
Goods in transit	8.0	1.2
	342.9	337.5
Allowance for slow moving inventories	(9.5)	(9.5)
	333.4	328.0

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

	2018 AED m	2017 AED m
At 1 January	9.5	24.1
Provision for slow-moving inventories	-	2.5
Written-back during the year	-	(17.1)
At 31 December	9.5	9.5

The cost of inventories recognised as an expense and included under cost of sales amounted to AED 338.2 million (2017: AED 362.9 million) (Note 20).

10 Financial assets at fair value through profit or loss

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

Current assets	2018 AED m	2017 AED m
In U.A.E. markets	21.2	0.2
In other G.C.C. markets	0.1	0.1
	21.3	0.3

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

	31 December 2018 AED m	31 December 2017 AED m
At 1 January	0.3	19.0
Reclassified from available-for-sale financial assets (Note 8)	11.5	-
Fair value change for change in accounting policy	14.4	-
Purchase during the year	16.9	-
Disposals during the year	(20.7)	(13.8)
Net loss on revaluation	(1.1)	(4.9)
At 31 December	21.3	0.3

Out of the investments amounting to AED 21.3 million, AED 19.5 million relates to an investment in unquoted equity security of an entity which is engaged in manufacturing of packing materials. The Group has 7.9% equity investment in the entity. Management has performed a valuation and recorded the investment at fair value. Fair value less costs of disposal has been computed using discounted cash flow projections. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (Note 3.2).

11 Trade and other receivables

Trade and other receivables comprise the following:

	2018 AED m	2017 AED m
Trade receivable	962.9	1,115.4
Less: provision for impairment of trade receivables	(419.6)	(59.7)
	543.3	1,055.7
Other financial assets at amortized cost	370.2	444.1
Other current assets	58.2	47.8
	971.7	1,547.6

11 Trade and other receivables (continued)

Other financial assets at amortized cost includes:

	2018 AED m	2017 AED m
Due from related parties (Note 29(b))	354.7	438.0
Other receivables	15.5	6.1
	370.2	444.1

Other current assets include:

	2018 AED m	2017 AED m
Advances to suppliers	44.6	41.5
VAT receivable	9.3	-
Prepaid expenses	2.8	4.4
Staff receivable	1.5	1.9
	58.2	47.8

Impairment of trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 90 -180 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies is disclosed in Note 2.7(d).

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

A provision has been made for the estimated impairment amounts of trade receivables of AED 419.6 million (2017: AED 59.7 million). This provision has been determined based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

11 Trade and other receivables (continued)

Impairment of trade receivables (continued)

During 2018, the Saudi Food and Drug Authority (SFDA) imposed a temporary ban to export the Company's products to the Kingdom of Saudi Arabia (KSA). The Company deals with an exclusive distributor in KSA and therefore all products sold in KSA are exported to that distributor. As a consequence of this ban, the trading activities between the Company and its Saudi distributor have diminished significantly. Furthermore, the respective receivable ageing has deteriorated and therefore management booked a provision amounting to AED 287.1 million related to receivable balances outstanding from this distributor. The net un-provided amount as at 31 December 2018 is AED 244.9 million. The Group has a corresponding liability to the same Saudi distributor in the form of goods amounting to AED 192 million, recorded within deferred revenue.

Furthermore, during 2018, the Group has recorded an additional specific provision of AED 65.7 million against one of the customer's receivable balance whose aging has deteriorated significantly.

For amount due from a related party, an impairment provision has been assessed on the basis of historical default rate adjusted with forward looking factor. Based on the outstanding amount, history of default and subsequent collection, the impact of expected credit loss is immaterial and hence no provision has been booked in respect of this receivable balance.

For the remaining receivables, the provision has been booked on the basis of expected credit loss model. Information about the Group's financial assets subject to IFRS 9's new expected credit loss model and the Group's revised impairment methodology can be found in note 2.7(d).

Under the revised impairment methodology under IFRS 9, the loss allowance for trade receivables as at 31 December 2018 is determined as follows:

31 December 2018	Expected loss rate	Gross carrying amount	Loss allowance
		AED m	AED m
Current - not yet due	1.39%	166.13	2.31
Less than 30 days	1.39%	26.20	0.36
More than 30 but less than 90 days past due	2.89%	19.82	0.57
More than 90 but less than 180 days past due	3.13%	7.86	0.25
More than 180 but less than 360 days past due	4.05%	3.26	0.13
More than 360 days past due	6.64%	17.38	1.15
Total		240.65	4.77

11 Trade and other receivables (continued)

Impairment of trade receivables (continued)

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

	2018 AED m	2017 AED m
At 31 December 2017 and 2016	59.7	50.6
Impact of change in accounting policy (Note 33)	10.7	-
At 1 January	70.4	50.6
Provision for impairment of trade receivables	353.9	9.1
Receivables written off	(4.7)	-
At 31 December	419.6	59.7

As at 31 December 2018, trade receivables of AED 311.8 million, (2017: AED 604.4 million) were fully performing.

As at 31 December 2018, trade receivables of AED 586.2 million (2017: AED 889.3 million) were past due but not impaired. These relate to several independent customers with whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018 AED m	2017 AED m
0 – 180 days	241.5	341.8
181 – 365 days	213.1	302.9
More than 365 days	131.6	244.6
	586.2	889.3

As of 31 December 2018, trade receivables of AED 419.6 million (2017: AED 59.7 million) were impaired and 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.

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

	2018 AED m	2017 AED m
Bank balances:		
Current accounts	72.8	133.5
Short term bank deposits *	11.2	31.3
	84.0	164.8
Cash in hand	3.8	3.7
Cash and bank balances	87.8	168.5
By geographical area:		
In the U.A.E.	40.5	116.5
In other countries	47.3	52.0
	87.8	168.5

* 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:

	2018 AED m	2017 AED m
Bank balances:		
Current accounts	72.8	133.5
Short term bank deposits	11.2	31.3
	84.0	164.8
Cash in hand	3.8	3.7
Cash and cash equivalents	87.8	168.5

13 Share capital

	2018 AED m	2017 AED m
1,158,500,000 issued and fully paid up ordinary shares as of 31 December 2018 (1,124,800,000 ordinary shares as of 31 December 2017) at par value of AED 1 each	1,158.5	1,124.8

Pursuant to the Annual General Meeting held on 26 April 2018, the Board of Directors issued 3% bonus shares in addition to cash dividends. The bonus shares issued during the year was 33.7 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 for appropriation of 10% of profit for each year. The statutory reserve only includes the parent Company as the other subsidiaries do not require a statutory reserve. As the Company has incurred loss during the year, therefore, no additional appropriation has been made in the statutory reserve. This reserve is not available for distribution except in the circumstances stipulated by the law.

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 in the general assembly. This reserve is distributable based on a recommendation by the Board of Directors and approval of the Shareholders general assembly. As the company has incurred loss during the year, no appropriation was made during the year.

16 Provision for employees' end of service indemnity

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

	2018 AED m	2017 AED m
At 1 January	46.7	44.3
Provisions during the year	27.8	8.0
Amounts paid during the year	(5.3)	(5.6)
At 31 December	69.2	46.7

17 Bank borrowings

	2018 AED m	2017 AED m
Overdraft	259.2	17.0
Loans	542.6	892.4
	801.8	909.4
Bank borrowings shall be repaid as follows:		
Current		
On demand or within one year	786.0	499.5
Non-current		
In the second year	7.9	228.2
In third to fifth year	7.9	181.7
	15.8	409.9
	801.8	909.4

The bank loan comprise of

	2018 AED m	2017 AED m
Ijara Loans	428.5	520.3
Other Loans	114.1	372.1
	542.6	892.4

17 Bank borrowings (continued)

The principal features of the bank borrowings are as follows:

(a) *Ijara Loan*

The Group has taken Ijara loans for general corporate borrowing purposes. Loans are secured against the assets financed and are repayable in periodic instalments. The company has pledged assets worth AED 550 million against the loan.

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 and machinery in favour of the Bank as loss payee.

(b) *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 114.1 million (2017: AED 372.1 million). Interest on these loans is calculated on monthly basis. The loan balances are paid in monthly installments, over periods ranging from one month to five years, until full settlement.

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 maintenance 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 2018 ranged from 1.25% to 4.65% above one month EIBOR (2017: 1.5% to 3.2% above one month EIBOR).

The Group's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not meet the tangible net worth ratio as required in the contract because of expenses related to impairment of financial assets. Due to this breach of the covenant, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of AED 336 million. The outstanding balance is presented as a current liability as at 31 December 2018. In May 2019, Management has initiated discussions with the lender to obtain a waiver.

17 Bank borrowings (continued)

(b) *Loans:* (continued)

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

	2018 AED m	2017 AED m
USD	428.6	621.4
AED	331.8	236.6
EURO	41.4	45.2
BDT	-	6.2
	801.8	909.4

(c) *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.

Interest rates on bank borrowings during 2018 ranged from 1.75% to 2.5% above one month to three month EIBOR

(d) *Net debt reconciliation*

	Note	As at 31 December 2018 AED m	2017 AED m
Cash and bank balances	12	87.8	168.5
Borrowings – repayable within one year		(786.0)	(499.5)
Borrowings – repayable after one year		(15.8)	(409.9)
Net debt		(714.0)	(740.9)
Cash and bank balances	12	87.8	168.5
Gross debt – variable interest rates		(801.8)	(909.4)
Net debt		(714.0)	(740.9)

	Cash and bank balances AED m	Borrowings -repayable within one year AED m	Borrowings -repayable after one year AED m	Total AED m
Net debt as at 1 January 2017	164.0	(487.7)	(304.0)	(627.7)
Net cash flows	12.8	(11.8)	(111.6)	(110.6)
Foreign exchange adjustment	(8.3)	-	-	(8.3)
Other changes	-	-	5.7	5.7
Net debt as at 31 December 2017	168.5	(499.5)	(409.9)	(740.9)
Net cash flows	(74.2)	(286.5)	394.1	33.4
Foreign exchange adjustment	(6.5)	-	-	(6.5)
Net debt as at 31 December 2018	87.8	(786.0)	(15.8)	(714.0)

17 Bank borrowings (continued)

(e) Movement in borrowings

	2018 AED m	2017 AED m
At 1 January	909.4	791.7
Less: Loans repaid during the year	(393.3)	(638.4)
Add: New drawdowns	285.7	750.4
Add: exchange loss	-	5.7
At 31 December	801.8	909.4

In January 2019, the Company entered into a new facility agreement with a local bank to borrow up to AED 300 million to meet the Company's working capital requirements and to settle some of the existing loan obligations. The Company drew down the whole balance of the facility and will make scheduled payments commencing from January 2020.

18 Trade payables and other accruals

	2018 AED m	2017 AED m
Accounts payable	157.4	83.1
Commission payable	60.7	57.2
Accrued expenses	26.4	15.3
Leave salary and air passage	20.8	10.5
Unclaimed dividend	18.0	18.0
Rebate and accruals	9.3	108.2
Provision for recalled products	8.0	-
Due to related parties (Note 29 (c))	3.1	5.7
Advances from customers	-	25.5
Others	21.7	37.8
	325.4	361.3

19 Sales

	2018 AED m	2017 AED m
Gross sales	852.2	1,273.4
Less: commission	(72.9)	(110.2)
Less: discount on sales	(7.0)	(8.6)
	772.3	1154.6

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

19 Sales (continued)

	2018 AED m	2017 AED m
UAE	178.2	292.4
Other GCC countries	169.5	404.2
Other countries	424.6	458.0
	772.3	1154.6

20 Cost of sales

	2018 AED m	2017 AED m
Raw materials consumed	338.2	362.9
Salaries and wages	107.8	104.9
Depreciation expense (Note 5)	70.2	71.6
Consumption of laboratory items	30.0	27.0
Electricity and water	28.2	29.8
Scrap	13.7	9.5
Others	20.7	20.9
	608.8	626.6

21 General and administrative expenses

	2018 AED m	2017 AED m
Salaries and wages	47.1	41.2
Depreciation (Note 5)	8.0	8.4
Directors sitting fees	7.1	7.8
Amortisation (Note 6)	5.6	5.6
Consumables	4.5	7.7
Transportation and visa charges	3.9	4.6
Utilities	3.6	2.3
Legal and professional	3.3	4.1
Loss on exchange	1.7	3.8
Technical know-how	1.5	1.7
expenses*	1.3	2.2
Bank charges and commission	1.2	1.5
Provision for slow moving inventories	-	2.5
Other expenses	12.1	6.1
	100.9	99.5

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

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

22 Selling and distribution expenses

	2018 AED m	2017 AED m
Salaries and wages	184.0	170.6
Advertisement and promotion	41.3	50.5
Documentation and registration	25.6	28.3
Freight charges	14.9	17.4
Consumables	11.6	22.7
Penalty on sales	6.5	6.8
Depreciation (Note 5)	6.4	8.3
Travelling	3.8	5.8
Product registration	3.6	4.8
Bank charges	2.8	2.5
Boarding	2.3	3.2
Rent	2.5	2.2
Visa	1.9	1.4
Utilities	1.5	1.3
Accommodation	1.4	2.0
Motor vehicle	1.3	1.7
Insurance	0.8	0.7
Other	18.6	16.2
	330.8	346.4

23 Other income

	2018 AED m	2017 AED m
Foreign exchange gain	6.1	1.4
Liabilities no longer required written back	-	3.5
Sale of raw materials	1.8	1.3
Cafeteria operating income	1.6	1.8
MSD income	-	1.4
Other income	1.8	4.7
	11.3	14.1

24 Gain/ (loss) from investments

	2018 AED m	2017 AED m
Dividends received on available-for-sale financial assets	2.9	1.2
Gain on sale of available-for-sale financial assets	-	3.7
Loss on revaluation of financial assets at fair value through profit or loss (Note 10)	(1.1)	(4.9)
Loss on sale of financial assets at fair value through profit or loss (Note 10)	(1.3)	(1.0)
Investments written-off (Note 8)	-	(0.5)
Recycled gain on available-for-sale financial assets	-	0.6
	0.5	(0.9)

25 Finance cost - net

	2018 AED m	2017 AED m
Interest income on fixed deposits	(5.1)	(5.1)
Finance income	(5.1)	(5.1)
Interest expense on bank overdraft	7.0	5.1
Interest expense on bank loans	20.9	20.6
Finance expense	27.9	25.7
Finance expense - net	22.8	20.6

26 Basic and diluted (loss)/earnings per share

Basic loss per share of AED 52.9 fils is calculated by dividing the loss for the year attributable to the Shareholders of the parent company of AED 612.6 million (2017: Profit of AED 94.9 million) by the weighted average number of shares outstanding during the year of 1,158.5 (2017: 1,124.8 million). 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 8.2 fils as reported for the year ended 31 December 2017 (previously reported as AED 8.4 for the year ended 31 December 2017) has been adjusted for the effect of the 33,700 thousand bonus shares issued in 2018 as a result of the bonus shares dividends approved by shareholders as per Note 27.

27 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 and 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.

28 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.

28 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. 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.

	2018				2017			
	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	772.3	-	-	772.3	1,154.6	-	-	1,154.6
Segment result	(595.5)	0.5	(22.8)	(617.8)	111.8	(0.9)	(20.6)	90.3
Depreciation expense	84.6	-	-	84.6	88.3	-	-	88.3
Share of associate's profit	-	15.3	-	15.3	-	24.7	-	24.7

	2018				2017			
	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	2,475.1	305.0	87.8	2,867.9	3,079.0	280.2	168.5	3,527.7
Segment liabilities	685.6	-	801.8	1,487.4	408.0	-	909.4	1,317.4
Other segment								

* Other segment represents corporate functions of the Group.

28 Segment information (continued)

Information by geographical region

The geographical information on 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.

	2018			
(AED m)	Total	UAE	Saudi Arabia	Others
Non-current assets				
Property, plant and equipment	1,126.4	842.1	259.1	25.2
Intangible Assets	43.6	4.1	-	39.5
Revenue	772.3	178.2	77.0	517.1

	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	1,154.6	263.2	279.8	611.6

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 305.0 million (2017: AED 697.7 million). These revenues are included under manufacturing segment. Included under "others" intangibles amounting to AED 23.9 million (2017: AED 24.0 million) in Egypt and AED 15.6 million (2017: AED 16.6 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.

29 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.

29 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:

	2018 AED m	2017 AED m
Sales to associate	128.6	362.3
Purchases from affiliates	9.5	13.9
Capital contribution by Cigalah in Julphar Saudi	35.2	30.3

	2018 AED m	2017 AED m
Compensation to key management personnel		
Short term benefits	5.8	10.5
Long term benefits	0.4	0.3
Board of Directors' remuneration	5.1	5.1

(b) Due from a related party

Planet Pharmacies L.L.C. (Associate) (Note 11)	354.7	438.0

(c) Due to related parties

Majan Printing and Packaging Company L.L.C. (Affiliate)	3.1	5.7

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.

30 Commitments and contingent liabilities

	2018 AED m	2017 AED m
Capital commitments	35.2	27.7
Letters of credit	12.3	18.4
Letters of guarantee	56.5	61.2

31 Financial instruments

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

	Financial assets			
	At amortized cost AED m	At fair value through profit & loss AED m	At fair value through other comprehensive income AED m	Total AED m
At 31 December 2018				
Assets				
Available-for-sale financial assets (Note 8)	-	-	-	-
Financial assets at fair value through profit and loss (Note 10)	-	21.3	-	21.3
Trade and other receivables (excluding prepayments, staff receivable, VAT receivable, and advance to suppliers) (Note 11)	913.5	-	-	913.5
Bank balances and cash (Note 12)	87.8	-	-	87.8
	1,001.3	21.3	-	1,022.6

	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

31 Financial instruments (continued)

	Financial liabilities at amortised cost AED m
31 December 2018	
Bank borrowings (Note 17)	801.8
Trade payables and accruals (excluding rebates, leave salary and air passage and accruals and advance from customers) (Note 18)	295.3
	1,097.1
31 December 2017	
Bank borrowings (Note 17)	909.4
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advance from customers) (Note 18)	217.1
	1,126.5

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group applies the IFRS 9 simplified approach on trade receivables to measure the expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Based on existing credit risk management practices, the default definition has been determined which aptly captures the gradual deterioration of the receivables under consideration. Definition of default has been disclosed in Note 11.

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

The impairment provision, rates used in computation of ECL and movement in the allowance for impairment in respect of trade receivables during the year has been disclosed in Note 11.

Cash and bank balance, other receivables and due from related parties are also subject to the impairment requirements of IFRS 9. For cash and bank balances, the management has made an assessment by taking the credit ratings from Moody's website and concluded that majority of its accounts are with banks with high credit ratings, the assessed impact as per ECL is not significant. Similarly for amount due from related parties and other receivables, the management has separately assessed the balance and the computed impact is immaterial.

31 Financial instruments (continued)

Credit risk (continued)

For cash and cash equivalents and due from related parties probability of default is derived from benchmarking and default rate studies conducted by external rating agencies. Loss given default estimate is taken from Basel guidelines. The identified impairment loss on cash and cash equivalents, short term deposits and due from related parties were insignificant.

There is no significant concentration of credit risk with respect to cash and cash equivalents, as the Group holds cash accounts in a number of diversified financial institutions.

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

The following table summarises the financial information relating to Group's subsidiaries that have material NCI, before any intra-group eliminations.

Summarised statement of financial position

	Julphar Saudi Arabia L.L.C.	
	2018 AED m	2017 AED m
At 31 December:		
Current assets	4.8	5.8
Non-current assets	253.1	208.7
Current liabilities	(10.1)	(8.0)
Non-current liabilities	(1.0)	(0.5)
Equity Attributable to:		
Owners of the parent company	246.8	206.0
Non-controlling interest	-	-

Summarised statement of income

	Julphar Saudi Arabia L.L.C.	
	2018 AED m	2017 AED m
Revenue	-	-
Expenses	(10.3)	(8.5)
Loss for the year	(10.3)	(8.5)
Attributable to:		
Owners of the parent company	(10.3)	(8.5)
Non-controlling interest	-	-

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

Summarised statement of financial position

	Julphar Pharmaceuticals P.L.C. – Ethiopia		RAK Pharmaceuticals Pvt. Ltd. - Bangladesh	
	2018 AED m	2017 AED m	2018 AED m	2017 AED m
At 31 December:				
Current assets	33.0	31.3	9.8	8.3
Non-current assets	7.3	8.2	17.8	18.7
Current liabilities	(16.0)	(18.3)	(13.9)	(9.1)
Non-current liabilities	-	-	(2.2)	(2.3)
Equity Attributable to:				
Owners of the parent company	24.3	21.2	11.5	15.6
Non-controlling interest	-	-	-	-

Summarised statement of income

	Julphar Pharmaceuticals P.L.C. - Ethiopia		RAK Pharmaceuticals Pvt. Ltd. - Bangladesh	
	2018 AED m	2017 AED m	2018 AED m	2017 AED m
Revenue	16.4	17.5	29.3	30.1
Expenses	(12.7)	(14.1)	(33.2)	(34.3)
Loss for the year	3.7	3.4	(3.9)	(4.2)
Attributable to:				
Owners of the parent company	3.7	3.4	(3.9)	(4.2)
Non-controlling interest	-	-	-	-

33 Change in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

33 Change in accounting policies (continued)

33.1 Impact on the financial statements

As a result of the changes in the Group's accounting policies, opening retained earnings of the consolidated financial statements has to be adjusted. IFRS 9 and IFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018. The adjustments are explained in more detail as below.

Consolidated statement of financial position	31 December 2017 AED m	IFRS 9 AED m	IFRS 15 AED m	1 January 2018 AED m
Non-current assets				
Available -for-sale- financial assets	11.5	(11.5)	-	-
Current Assets				
Financial assets at fair value through profit or loss	0.3	27.9	-	28.2
Trade and other receivables	1,547.6	(10.7)	26.3	1,563.2
Equity				
Retained earnings	328.3	5.7	(137.0)	197.0
Fair value reserve	2.0	(2.0)	-	-
Current Liabilities				
Deferred revenue	-	-	163.3	163.3

33.2 IFRS 15 Revenue from Contracts with Customers

33.2.1 Impact of adoption

The IASB has issued a new standard for the recognition of revenue. IFRS 15 'Revenue from contracts with customers' outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes IAS 11 which covers construction contracts and IAS 18 which covers contracts for goods. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

33.2 IFRS 15 Revenue from Contracts with Customers (continued)

33.2.1 Impact of adoption (continued)

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and applied the modified retrospective approach permitted by IFRS 15 upon adoption.

- The requirements of the new standard have been applied to contracts that are not completed as at the date of initial application (1 January 2018); and

- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

The Group has assessed the impact of applying the new standard on the Group's consolidated financial statements and has identified the following areas that were affected:

(i) Accounting for multiple performance obligations

The Group provides bonus goods to its distributors as part of its marketing activities. These arrangements can have single or multiple performance obligations under IFRS 15 based on the nature of marketing campaigns run by the Group. Factors affecting the conclusion whether an arrangement has single or multiple performance obligations can include (among other factors) customer's expectations from the contract, distinct nature of the products and services and degree of integration or inter-relation between the various products and services. This assessment requires significant judgement from the Group.

Under the previous revenue recognition framework, the Group accrued for the estimated bonus goods to be provided towards its marketing activities. Under IFRS 15, the bonus goods distributions are considered as a separate performance obligation and revenue is deferred to the extent the bonus goods obligation is considered outstanding. The obligation of bonus goods are estimated at the time of sale based on available information and historical experience.

As a consequence, the amount of revenue to be deferred was AED 163.3 million higher than the amount recognised as the bonus goods liability of AED 99.4 million under the previous policy, with a corresponding reduction in commission expense of AED 26.3 million and net adjustments to retained earnings of AED 137.0 million.

(ii) Variable consideration

When the product is sold to the distributor, the Group provides a fixed commission on the sales as per the contract. The Group under the previous framework classified commission as part of the selling and distribution expense. Under IFRS 15, this is considered as a variable consideration and is allocated to the transaction price.

To reflect this change in policy, the Group has reclassified in the consolidated statement of income for the year ended 31 December 2017, AED 110.2 million from selling and distribution expenses and deducted from the revenue.

33 Change in accounting policies (continued)

33.2 IFRS 15 Revenue from Contracts with Customers (continued)

33.2.1 Impact of adoption (continued)

(ii) Variable consideration (continued)

There were no other areas which materially impacted the revenue recognised by the Group at the initial application date and for the year ended 31 December 2018.

During the year ended 31 December 2018, the Group has recognized revenue of AED 772.3 million net of commission and discount. Had the company recognized revenue under the previous framework, the revenue would have been AED 820.09 million net of commission and discount.

33.3 IFRS 9 Financial instruments

33.3.1 Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 21.3.2. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

(i) Classification and measurement

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

On 1 January 2018, the Group's management assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

33 Change in accounting policies (continued)

33.3 IFRS 9 Financial instruments (continued)

33.3.1 Impact of adoption (continued)

(i) Classification and measurement (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Group has reclassified available-for-sale investments to fair value through profit or loss (FVPL) category. The related accounting policies has been disclosed in Note 2.7.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

Financial assets – 1 January 2018	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Available-for-sale financial assets	Available for sale	Financial assets at fair value through profit & loss	11.5	25.9
Financial assets at fair value through profit and loss	Held for trading	Financial assets at fair value through profit & loss	0.3	0.3
Trade and other receivables (excluding advance to suppliers, staff receivable and prepaid expenses)	Loans and receivables – at amortised cost	Financial assets at amortised cost	1,499.8	1,499.8
Cash and bank balance (Note 12)	Loans and receivables – at amortised cost	Financial assets at amortised cost	168.5	168.5

33 Change in accounting policies (continued)

33.3 IFRS 9 Financial instruments (continued)

33.3.1 Impact of adoption (continued)

(i) Classification and measurement (continued)

Financial liabilities – 1 January 2018	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Bank borrowings	Other financial liabilities – at amortised cost	Other financial liabilities – at amortised cost	909.4	909.4
Trade payables and accruals (excluding rebates and accruals, leave salary and air passage and advance from customers)	Other financial liabilities – at amortised cost	Other financial liabilities – at amortised cost	217.1	217.1

(ii) Impairment of financial assets

The Group has only trade and other receivables which is subject to IFRS 9's new expected credit loss model. Refer Note 11 for breakup of impairment.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in Note 33.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, the Group has concluded expected loss rates for trade receivables which have been segregated based on credit risk characterises. Based on expected loss rates, the loss allowance as at 1 January 2018 was determined for trade receivables for each segment separately and ranges up to 6.64% depending on the ageing buckets in which the trade receivables assets fall.

33 Change in accounting policies (continued)

33.3 IFRS 9 Financial instruments (continued)

33.3.1 Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

The loss allowance for trade receivables as at 31 December 2017 reconcile to the opening loss allowance on 1 January 2018 as follows

	Total in AED m
At 31 December 2017 – calculated under IAS 39	59.7
Amounts restated through opening retained earnings	10.7
Opening loss allowance as at 1 January 2018 – calculated under IFRS9	70.4

34 Non-cash transactions

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

	2018 AED m
Change in IFRS for receivables	10.7
Change in IFRS for deferred income	(163.3)
Change in IFRS for other receivables	(26.3)
Change in IFRS for investments held for trading	14.4

35 Subsequent events

In March 2019, a fire in the adjacent factory of a subsidiary of the Group in Jebel Ali damaged part of the building of the subsidiary. The fire also destroyed some of the equipment. Inventories stored in the warehouse of the subsidiary were damaged as the pharmaceutical drugs could not comply with the prescribed temperatures due to interrupted power supply during the incident. The subsidiary has assessed that total loss from damage of equipment and inventory is approximately AED 15.0 million and has lodged an insurance claim against this damage.