Gulf Pharmaceutical Industries P.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 JUNE 2019

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working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C.

Introduction
We have reviewed the accompanying interim condensed consolidated financial statements of Gulf Pharmaceutical Industries P.S.C. (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2019, which comprises the interim condensed consolidated statement of financial position as at 30 June 2019, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three months and six months then ended, interim condensed consolidated statement of changes in equity, and interim condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standards 34, Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

Basis for Qualified Conclusion
As disclosed in note 6 to the interim condensed 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 the previous year, 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 for the six months ended 30 June 2019 and the year ended 31 December 2018 has not been made available to us. Although the court's initial judgment in April 2019 has been resolved in Planet's favour, the nominee shareholder has lodged an appeal and Planet is awaiting the notification of the date of the appeal hearing.

As a result, we were unable to perform the necessary review and opening balances procedures on Planet's consolidated financial statements as of 31 December 2018 and the management accounts as of 30 June 2019, neither were we able to review the consistency of the accounting policies used by Planet with the Group accounting policies to obtain sufficient appropriate evidence about the carrying amount of the Group's investment in the associate of AED 281.5 million as at 30 June 2019 and the Group's share of loss from the associate of AED 2.2 million for the period then ended. Had we been able to complete our review and opening balance procedures relating to the associate, matters might have come to our attention indicating that adjustments might be necessary to the interim condensed consolidated financial statements.

The above matter was also the basis for the qualified audit opinion issued on 30 May 2019 by the predecessor auditor on the consolidated financial statements for the year ended 31 December 2018.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF GULF PHARMACEUTICAL INDUSTRIES P.S.C. (continued)

Qualified Conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented, in all material respects, in accordance with IAS 34.

Emphasis of matter

We draw attention to note 2 to the interim condensed consolidated financial statements, which states that the Group incurred a loss of AED 187.8 million during the six months ended 30 June 2019 and, as of that date, the Group's accumulated losses amounted to AED 745.6 million. Moreover, the ban imposed on the Group's products by the Saudi Food and Drug Authority continues to have a negative impact on the Group's trading performance, gross margin and cash flows. As stated in note 2, these conditions, along with other matters as stated in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not further modified in respect of this matter.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018, were audited by another auditor who expressed a qualified opinion on those consolidated financial statements with a paragraph emphasizing material uncertainty relating to the going concern in their report dated 30 May 2019. The qualification related to the limitation of scope imposed due to circumstances beyond the control of the management, which resulted in the unavailability of the associate's financial information for the year ended 31 December 2018.

The interim condensed consolidated financial statements of the Group as at and for the six months ended 30 June 2018 were reviewed by another auditor who issued an unmodified review conclusion on those interim condensed consolidated financial statements in their report dated 15 August 2018.

For Ernst & Young

T.S. Hari Gopal

Signed by:
Thodla Hari Gopal
Partner
Registration No. 689

8 August 2019

Dubai, United Arab Emirates

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2019 (Unaudited)

		Six months ended 30 June		*Three months ended 30 June*	
	Notes	***2019 AED million***	*2018 AED million*	***2019 AED million***	*2018 AED million*
Net sales	4	**218.4**	557.6	**100.1**	293.6
Cost of sales		**(205.5)**	(339.4)	**(94.1)**	(174.8)
Gross profit		**12.9**	218.2	**6.0**	118.8
General and administrative expenses		**(42.1)**	(45.8)	**(21.6)**	(21.2)
Selling and distribution expenses		**(146.8)**	(136.2)	**(75.0)**	(73.9)
Other income		**4.2**	6.9	**1.9**	4.3
Gain and income from investments and others		**2.4**	0.5	**0.6**	-
Share of (loss) / profit from investment in an associate	6	**(2.2)**	14.0	**1.3**	7.6
Operating (loss)/ profit		**(171.6)**	57.6	**(86.8)**	35.6
Finance income		**0.7**	2.9	**0.2**	1.1
Finance costs		**(16.9)**	(12.1)	**(9.6)**	(6.7)
Finance costs – net		**(16.2)**	(9.2)	**(9.4)**	(5.6)
(Loss)/profit for the period		**(187.8)**	48.4	**(96.2)**	30.0
Attributable to:					
Owners of the Parent Company		**(183.9)**	50.9	**(94.8)**	31.3
Non-controlling interest		**(3.9)**	(2.5)	**(1.4)**	(1.3)
		(187.8)	48.4	**(96.2)**	30.0
Basic and diluted (Loss)/ earnings per share (in UAE fils)	15	**(15.9)**	4.4	**(8.2)**	2.7

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2019 (Unaudited)

	Six months ended 30 June		*Three months ended 30 June*	
	2019 AED million	*2018 AED million*	***2019 AED million***	*2018 AED million*
(Loss) / profit for the period	**(187.8)**	48.4	**(96.2)**	30.0
Other comprehensive income				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Currency translation differences	**(2.4)**	0.3	**0.9**	(2.1)
Total comprehensive (loss) / income for the period	**(190.2)**	48.7	**(95.3)**	27.9
Attributable to:				
Shareholders of the Parent Company	**(186.3)**	51.2	**(93.9)**	29.2
Non-controlling interests	**(3.9)**	(2.5)	**(1.4)**	(1.3)
	(190.2)	48.7	**(95.3)**	27.9

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (unaudited)

	Notes	*30 June 2019 AED million (unaudited)*	*31 December 2018 AED million (audited)*
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,113.7**	1,126.4
Intangible assets		**42.9**	43.6
Investment in an associate	6	**281.5**	283.7
		1,438.1	1,453.7
Current assets			
Inventories	7	**317.9**	333.4
Financial assets at fair value through profit or loss	8	**22.1**	21.3
Trade and other receivables	9	**744.6**	971.7
Bank balances and cash	10	**109.7**	87.8
		1,194.3	1,414.2
TOTAL ASSETS		**2,632.4**	2,867.9
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**1,158.5**	1,158.5
Statutory reserve	12	**562.4**	562.4
Voluntary reserve	13	**184.8**	184.8
Foreign currency translation reserve		**(140.5)**	(138.1)
Accumulated losses		**(745.6)**	(561.7)
Equity attributable to shareholders of the Parent Company		**1,019.6**	1,205.9
Non-controlling interests	19	**181.1**	174.6
Total equity		**1,200.7**	1,380.5
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service benefits		**68.3**	69.2
Bank borrowings	14	**285.5**	15.8
		353.8	85.0
Current liabilities			
Bank borrowings	14	**531.8**	786.0
Trade payables and accruals		**273.0**	325.4
Deferred revenue		**273.1**	291.0
		1,077.9	1,402.4
Total liabilities		**1,431.7**	1,487.4
TOTAL EQUITY AND LIABILITIES		**2,632.4**	2,867.9

Yousef Ali Mohammed
Vice-Chairman

Jerome Carle
CEO

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019 (Unaudited)

	Attributable to the shareholders of Parent Company								
	Share capital AED million	*Statutory reserve AED million*	*Voluntary reserve AED million*	*Foreign currency translation reserve AED million*	*Fair value reserve AED million*	*(Accumulated losses) / retained earnings AED million*	*Total AED million*	*Non-controlling interests AED million*	*Total equity AED million*
Balance at 1 January 2019 (audited)	1,158.5	562.4	184.8	(138.1)	-	(561.7)	1,205.9	174.6	1,380.5
Loss for the period	-	-	-	-	-	(183.9)	(183.9)	(3.9)	(187.8)
Other comprehensive loss for the period	-	-	-	(2.4)	-	-	(2.4)	-	(2.4)
Total comprehensive loss for the period	-	-	-	(2.4)	-	(183.9)	(186.3)	(3.9)	(190.2)
Movement in non-controlling interest (note19)	-	-	-	-	-	-	-	10.4	10.4
Balance at 30 June 2019 (unaudited)	**1,158.5**	**562.4**	**184.8**	**(140.5)**	-	**(745.6)**	**1,019.6**	**181.1**	**1,200.7**
Balance at 1 January 2018 (audited)	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	-	-	-	-	(2.0)	(131.3)	(133.3)	-	(133.3)
Balance at 1 January 2018 (restated)	1,124.8	562.4	184.8	(136.6)	-	197.0	1,932.4	144.6	2,077.0
Profit for the period	-	-	-	-	-	50.9	50.9	(2.5)	48.4
Other comprehensive income for the period	-	-	-	0.3	-	-	0.3	-	0.3
Total comprehensive income for the period	-	-	-	0.3	-	50.9	51.2	(2.5)	48.7
Cash dividends paid (note 16)	-	-	-	-	-	(112.4)	(112.4)	-	(112.4)
Issuance of bonus shares (note 16)	33.7	-	-	-	-	(33.7)	-	-	-
Movement in non-controlling interest (note 19)	-	-	-	-	-	-	-	22.0	22.0
Balance at 30 June 2018 (unaudited)	1,158.5	562.4	184.8	(136.3)	-	101.8	1,871.2	164.1	2,035.3

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2019 (Unaudited)

	Notes	*Six months period ended 30 June (unaudited)* 2019 AED million	2018 AED million
OPERATING ACTIVITIES			
(Loss)/profit for the period		**(187.8)**	48.4
Adjustments for:			
Depreciation of property, plant and equipment	5	**39.0**	42.2
Amortisation for intangible assets		**2.0**	2.7
Share of loss/(profit) from investment in an associate	6	**2.2**	(14.0)
Allowance for obsolete and slow-moving inventories	7	**14.4**	-
(Gain)/loss on revaluation of financial asset at FVTPL	8	**(0.8)**	1.1
Loss on sale of FVTPL		-	1.3
Provision for employees' end of service benefits		**4.4**	5.5
Finance costs - net		**16.2**	9.2
		(110.4)	96.4
Changes in working capital:			
Trade and other receivables		**227.1**	18.4
Inventories		**1.1**	16.2
Trade payables, accruals and deferred revenue		**(70.0)**	7.8
Cash generated from operations		**47.8**	138.8
Employees' end of service benefits paid		**(5.7)**	(2.3)
Net cash flows from operating activities		**42.1**	136.5
INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	**(26.0)**	(24.0)
Additions to investments at FVTPL		-	(16.9)
Sales proceeds from disposal of investment at FVTPL		-	19.4
Interest income		**0.7**	2.9
Net cash flows used in investing activities		**(25.3)**	(18.6)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		**340.0**	200.1
Repayment of loans		**(325.0)**	(250.0)
Dividends paid		-	(112.4)
Non-controlling interest		**10.4**	22.0
Interest paid		**(16.9)**	(12.1)
Net cash from/ (used in) financing activities		**8.5**	(152.4)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**25.3**	(34.5)
Currency translation differences		**(3.4)**	2.0
Cash and cash equivalents at the beginning of the period		**87.8**	168.5
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	**109.7**	136.0

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

1. ACTIVITIES

Gulf Pharmaceutical Industries is a Public Shareholding Company (the "Company") domiciled in Digdaga - Ras Al Khaimah. It was incorporated by the Emiri decree No.5/80 issued by ("H.H"), The Ruler of the Emirate of Ras Al Khaimah and its dependencies on 30 March 1980 and the Emiri decree No.9/80 on 4 May 1980. The 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 (ADX).

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

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2019 was authorised for issue in accordance with the resolution of the Board of Directors on 7 August 2019.

The Company has the following major subsidiaries:

Serial No.	*Name of subsidiary*	*Place of incorporation and operation*	*Percentage of Ownership 2019*	*2018*	*Subsidiary 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%	Manufacturing 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

1. ACTIVITIES (continued)

Serial No.	*Name of subsidiary*	*Place of incorporation and operation*	*Percentage of Ownership* *2019*	*2018*	*Principle activity*
11.	Julphar Pakistan Private Limited *	Pakistan	99%	99%	Distributors of Julphar's products in Pakistan
12.	Julphar Tunisie *	Tunisia	99%	99%	Distributors of Julphar's products in Tunisia

*These subsidiaries are not operational, and the financial results are immaterial to the overall interim condensed consolidated financial statements of the Company.

2. BASIS OF PREPARATION AND CHANGES TO THE ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

In addition, results for the six months ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The interim condensed consolidated financial statements have been prepared in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency, and all values are rounded to the nearest million except where otherwise indicated.

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for investments carried at fair value through profit or loss.

2.2 Going concern

The Group incurred a loss of AED 187.8 million during the six months ended 30 June 2019 and, as of that date, the Group's accumulated losses amounted to AED 745.6 million. The circumstances outlined give rise to a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Moreover, in September 2018, the Saudi Food and 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 suspension on the Company exporting its products to the Kingdom of Saudi Arabia (KSA) and Kingdom of Bahrain. Prior to the suspension, products shipped to KSA which represents a major market for the Company, continued to be sold in that market. Since the suspension 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 will occur during 2019.

Furthermore, during 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 necessary rectification measures to fully address the issues raised by MOH and is hopeful that these products would be ready for sale in the market once the same is cleared by MOH.

2. BASIS OF PREPARATION AND CHANGES TO THE ACCOUNTING POLICIES (continued)

2.2 Going concern (continued)

Moreover, in May 2019, the Gulf Health Council (GHC) performed a physical inspection of the Company's plants in Ras Al Khaimah and issued a report in July 2019. The report is under analysis and action plans are being prepared and discussed between Julphar Teams and the Regional and Local Health Authorities.

In spite of these events and conditions, the interim condensed consolidated financial statements have been prepared on a going concern basis considering the following facts:

a) Management has undertaken various operational measures and restructuring decisions and expects that the suspensions will soon be lifted and, trading activities with existing or new customers will improve;

b) During the six months ended 30 June 2019, the Group recorded losses amounting to AED 187.8 million which was mainly caused by the temporary suspension on exports to KSA market and related impact on margins, cash flows and the profitability of the Group. In addition to the ongoing strenuous efforts that management is making to get the suspension lifted, the Group has undertaken various marketing initiatives and negotiated with several customers in the Middle East and North Africa region to notably grow trading activities and expand its market share in some of the countries in that region. The Group has a healthy order book for 2019 to supply the goods and address market demand;

c) The Group has generated positive operating cash flows of AED 42.1 million to ensure business continuity through internal and external sources.

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group‟s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases and several other amendments and interpretations effective from 1 January 2019, but these do not have any material impact on the interim condensed consolidated financial statements of the Group expect as described below.

IFRS 16 Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option („short-term leases‟), and lease contracts for which the underlying asset is of low value („low-value assets‟).

Due to the exemptions taken as above, the Group did not have any impact on the adoption of IFRS 16 except for the impact on the Group‟s associate which has not been currently finalized due to the matters specified in note 6.

2. BASIS OF PREPARATION AND CHANGES TO THE ACCOUNTING POLICIES (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

Other amendments

1. IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
2. Amendments to IFRS 9: Prepayment Features with Negative Compensation
3. Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
4. Amendments to IAS 28: Long-term interests in associates and joint ventures

Annual Improvements 2015-2017 Cycle

1. IFRS 3 Business Combinations
2. IFRS 11 Joint Arrangements
3. IAS 12 Income Taxes
4. IAS 23 Borrowing Costs

2.4 Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements for the year ended 31 December 2018, except as disclosed in note 2.

4. NET SALES

	Six months ended 30 June		*Three months ended 30 June*	
	2019 AED million (unaudited)	*2018 AED million (unaudited)*	***2019 AED million (unaudited)***	*2018 AED million (unaudited)*
Gross sales	**233.4**	605.2	**107.9**	309.5
Less: commission	**(15.0)**	(47.6)	**(7.8)**	(15.9)
	218.4	557.6	**100.1**	293.6

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:

	Six months ended 30 June		*Three months ended 30 June*	
	2019 AED million (unaudited)	*2018 AED million (unaudited)*	***2019 AED million (unaudited)***	*2018 AED million (unaudited)*
GCC	**36.0**	330.3	**12.6**	185.4
Levant	**76.7**	82.0	**39.9**	66.3
Africa excluding Egypt	**46.8**	117.8	**22.1**	24.7
Other countries	**58.9**	27.5	**25.5**	17.2
	218.4	557.6	**100.1**	293.6

5. PROPERTY PLANT AND EQUIPMENT

a) Property, plant and equipment additions during the current period amounted to AED 26.0 million (30 June 2018: AED 24.0 million).

b) Depreciation charges for the current period amounted to AED 39.0 million (30 June 2018: AED 42.2 million).

c) Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 14).

d) During the six months ended 30 June 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 6 million and has lodged an insurance claim against this damage. Moreover, the Group has not recorded impact of the above-mentioned incident in the interim condensed consolidated financial statements for the six months ended 30 June 2019 since the impact is immaterial to the overall interim condensed consolidated financial statements of the Group. During the six months ended 30 June 2019, the subsidiary received AED 0.6 million from the insurance company.

6. INVESTMENT IN AN ASSOCIATE

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

Details of the Group'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*	*30 June 2019 AED million (unaudited)*	*31 December 2018 AED million (audited)*
Planet Pharmacies L.L.C.	UAE	40%	**281.5**	283.7

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

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Balance at the beginning of the period/year	**283.7**	268.4
Share of the associate's (loss)/profit for the period/ year	**(2.2)**	15.3
At end of the period/year	**281.5**	283.7

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. As a result of the above, the management is not able to assess the accuracy of the numbers for its subsidiaries in KSA for the year ended 31 December 2018 and six months ended 30 June 2019.

7. INVENTORIES

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Raw materials	**128.5**	105.9
Packing materials	**48.3**	52.8
Spare parts	**31.1**	30.0
Work-in-progress	**17.2**	29.0
Finished goods	**84.7**	101.2
Consumables	**17.4**	16.0
Goods in transit	**3.6**	8.0
	330.8	342.9
Less: allowance for slow moving inventories	**(12.9)**	(9.5)
	317.9	333.4

7. INVENTORIES (continued)

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

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
At beginning of the period/year	**9.5**	9.5
Provision for slow-moving inventories	**14.4**	-
Provision used against scrapping	**(11.0)**	-
At end of the period/year	**12.9**	9.5

8. 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:

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
In U.A.E. markets	**22.0**	21.2
In other G.C.C. markets	**0.1**	0.1
	22.1	21.3

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

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Balance at the beginning of the period/year	**21.3**	0.3
Reclassified from available-for-sale investments	-	11.5
Fair value change for change in accounting policy	-	14.4
Purchase during the period/year	-	16.9
Disposals during the period/year	-	(20.7)
Net gain/ (loss) on revaluation	**0.8**	(1.1)
At end of the period/year	**22.1**	21.3

Out of the investments amounting to AED 22.1 million (31 December 2018: AED 21.3 million), AED 20.3 million (31 December 2018: 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 20).

9. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Trade accounts receivable	**826.7**	962.9
Less: provision for expected credit losses	**(415.9)**	(419.6)
	410.8	543.3
Due from a related party (note 17(b))	**265.1**	354.7
Staff receivables	**0.8**	1.5
Prepaid expenses	**17.8**	2.8
Advances to suppliers	**22.7**	44.6
Other receivables	**18.5**	15.5
VAT receivables	**8.9**	9.3
	744.6	971.7

Movement in the provision for expected credit losses during the period/year was as follows:

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Balance at the beginning of the period/year	**419.6**	70.4
Provision for receivables impairment	**-**	353.9
Reversal of provision on subsequent collection	**(3.7)**	(4.7)
At end of the period/year	**415.9**	419.6

During 2018, the Saudi Food and Drug Authority (SFDA) imposed a temporary suspension 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 (31 December 2018: AED 287.1 million) related to receivable balances outstanding from this distributor. The net un-provided amount as at 30 June 2019 is AED 222.5 million (31 December 2018: 244.9 million) against which the Group has a corresponding liability to the same Saudi distributor in the form of goods amounting to AED 192.0 million (31 December 2018: 192.0 million), recorded within deferred revenue and the remaining balance is expected to be recoverable by the management.

10. CASH AND CASH EQUIVALENTS

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Bank balances:		
Current accounts	**107.2**	72.8
Short term bank deposits (note (a))	**0.5**	11.2
	107.7	84.0
Cash in hand	**2.0**	3.8
Cash and cash equivalents	**109.7**	87.8

a) The margin deposits maturity dates range from one to three-month from the placement dates and carry interest at commercial rates.

11. SHARE CAPITAL

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Issued and fully paid up 1,158,500,000 ordinary shares (1,158,500,000 ordinary shares as of 31 December 2018) at par value of AED 1 each	**1,158.5**	1,158.5

12. STATUTORY RESERVE

In accordance with United Arab Emirates Federal Commercial Companies Law No. 2 of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year. The shareholders of the Company in the annual general meeting held on 1 July 2019, have resolved to utilize the reserve to offset the accumulated losses of the Group subject to the approval received from Securities and Commodities Authority.

13. VOLUNTARY RESERVE

Appropriations to the voluntary reserve account represents appropriation of the profit for each year as and when required. The shareholders of the Company in the annual general meeting held on 1 July 2019, have resolved to utilize the reserve to offset the accumulated losses of the Group subject to the approval received from Securities and Commodities Authority.

14. BANK BORROWINGS

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Overdrafts	**275.1**	259.2
Loans	**542.2**	542.6
	817.3	801.8

Bank borrowings shall be repaid as follows:

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Current		
On demand or within one year	**531.8**	786.0
Non-current		
In the second year	**57.9**	7.9
In third to seventh year	**227.6**	7.9
	285.5	15.8
	817.3	801.8

14. BANK BORROWINGS (continued)

The bank loan comprise of:

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Ijara loans	**153.0**	428.5
Other loans	**389.2**	114.1
	542.2	542.6

The principal features of the bank borrowings are as follows:

a) Ijara loan

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

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) Bank overdraft

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

c) Other loans

The Group has obtained long and short-term loans from local banks to finance the purchase of the factory's machinery and equipment and to secure working capital requirements. The loans balance as of the reporting date amounted to AED 389.2 million (2018: AED 114.1 million). Interest on these loans is calculated on monthly basis and paid separately or added to the loan balances. The loan balances are paid in monthly installments, over periods ranging from one month to 7 years, until full settlement.

During the six months period ended 30 June 2019, the Group has obtained a short term of AED 57 million for a period of 3 months which carries interest at EIBOR + 3.5%.

The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 291 million.

2. Maintenance of certain financial ratios as agreed with the respective banks.

Interest rates on bank borrowings during the period ended 30 June 2019 ranged from 1.25% to 2.75% above one-month EIBOR (2018: 1.75% to 2.5% above one-month EIBOR).

The Group has obtained a new loan facility on 31 January 2019 from a bank of AED 300 million to pre-settle the loan already obtained amounting to AED 100 million and to partially settle other loans. The loan is repayable in 72 equal monthly installments starting from 31 January 2020.

15. BASIC EARNINGS PER SHARE

	Six months ended 30 June		*Three months ended 30 June*	
	30 June 2019 AED million (unaudited)	*30 June 2018 AED million (unaudited)*	***30 June 2019 AED million (unaudited)***	*30 June 2018 AED million (unaudited)*
(Loss)/profit for the period attributable to the shareholder of the Parent Company	**(183.9)**	50.9	**(94.8)**	31.3
Weighted average number of shares	**1,158.5**	1,158.5	**1,158.5**	1,158.5
Basic (loss)/ earnings per share (in UAE fils)	**(15.9)**	4.4	**(8.2)**	2.7

The Group does not have any potential equity shares and accordingly the basic and diluted earnings per share are the same.

16. DIVIDENDS

At the Board of Directors meeting held on 28 March 2018, a dividend was proposed of AED 0.03 per share to be distributed as bonus share dividends at 3% of share capital and the distribution of cash dividends at AED 0.10 per share, or 10% cash dividends, totaling AED 146.2 million. This was subsequently approved by the shareholders at the Annual General Meeting held on 26 April 2018. Subsequent to the three months ended 31 March 2019, the shareholders of the Company in the annual general meeting held on 1 July 2019 decided not to declare any dividends for the year ended 31 December 2018.

17. RELATED PARTY BALANCES AND TRANSACTIONS

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.

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:

	Six months ended 30 June		*Three months ended 30 June*	
	2019 AED million (unaudited)	*2018 AED million (unaudited)*	***2019 AED million (unaudited)***	*2018 AED million (unaudited)*
Sales to associate	**16.2**	159.1	**9.0**	71.5
Purchases from affiliates	**3.8**	3.8	**3.8**	3.0

17. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	Six months ended 30 June		*Three months ended 30 June*	
	30 June 2019 AED million (unaudited)	*30 June 2018 AED million (unaudited)*	***30 June 2019 AED million (unaudited)***	*30 June 2018 AED million (unaudited)*
Compensation to key management personnel				
Short term benefits	**2.2**	3.2	**0.8**	2.3
Long term benefits	**0.02**	0.1	-	0.08
Board of Director's remuneration	-	0.3	-	-

b) Due from a related party

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Planet Pharmacies L.L.C. (Associate)	**265.1**	354.7

c) Due to a related party

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Majan Printing and Packaging Company L.L.C. (Affiliate)	**2.6**	3.1

Due to a related party balance is included in the trade payables and accrual balances.

No bank guarantees are received from/provided to related parties against balances due from/ to them. No expense has been recognised in the period for expected credit losses in respect of the amounts owed by related parties.

18. 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:

a. Manufacturing
b. Investments
c. Others

There are no sales between segments during the year.

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

18. SEGMENT INFORMATION (continued)

The Board of Directors is also provided with multiple levels of information which comprise of revenue, gross profit and net profit, aggregated for higher level components (i.e. combination of all products and services) by distribution and by region. The financial accounting system of the Group is currently configured in this manner and this information is readily available. However, for decision making purposes, the Board of Directors rely mainly on the revenue and net profit information that contains lower level components. Hence, the segment information provided is primarily to the net profit level of the Group.

	For the six months ended 30 June 2019 (unaudited)				*For the six months ended 30 June 2018 (unaudited)*			
	Manufacturing AED million	***Investments AED million***	***Other segments AED million***	***Total AED million***	*Manufacturing AED million*	*Investments AED million*	*Other segments AED million*	*Total AED million*
Segment revenue	**218.4**	**-**	**-**	**218.4**	557.6	-	-	557.6
Segment result	**(174.0)**	**2.4**	**(16.2)**	**(187.8)**	57.1	0.5	(9.2)	48.4
Depreciation expense	**39.0**	**-**	**-**	**39.0**	42.2	-	-	42.2
Share of associate's (loss) / profit	**-**	**(2.2)**	**-**	**(2.2)**	-	14.0	-	14.0

	30 June 2019 (unaudited)				*31 December 2018 (audited)*			
	Manufacturing AED million	***Investments AED million***	***Other segments AED million***	***Total AED million***	*Manufacturing AED million*	*Investments AED million*	*Other segments AED million*	*Total AED million*
Segment assets	**2,219.1**	**303.6**	**109.7**	**2,632.4**	2,475.1	305.0	87.8	2,867.9
Segment liabilities	**614.4**	**-**	**817.3**	**1,431.7**	685.6	-	801.8	1,487.4

18. SEGMENT INFORMATION (continued)

Information by geographical region

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

	30 June 2019 (unaudited)			
	Total AED million	***UAE AED million***	***Saudi Arabia AED million***	***Others AED million***
Non-current assets				
Property, plant and equipment	**1,113.7**	**818.4**	**271.3**	**24.0**
Intangible assets	**42.9**	**3.3**	**-**	**39.6**

	Six months period ended 30 June 2019 (unaudited)			
	Total AED million	***UAE AED million***	***Saudi Arabia AED million***	***Others AED million***
Revenue	**218.4**	**13.8**	**0.7**	**203.9**

	31 December 2018 (audited)			
	Total AED million	*UAE AED million*	*Saudi Arabia AED million*	*Others AED million*
Non-current assets				
Property, plant and equipment	1,126,4	842.1	259.1	25.2
Intangible Assets	43.6	4.1	-	39.5

	Six months period ended 30 June 2018 (unaudited)			
	Total AED million	*UAE AED million*	*Saudi Arabia AED million*	*Others AED million*
Revenue	557.6	133.8	123.6	300.2

The Group has sales to 2 customers whose sales individually are more than 10% of the total external sales. Total amount of sales for the six months ended 30 June 2019 to these customers amounts to AED 65.7 million (30 June 2018: AED 282.7 million). These revenues are included under manufacturing segment.

Included under "others" intangibles amounting to AED 22.5 million (31 December 2018: AED 23.9 million) in Egypt and AED 15.1 million (31 December 2018: AED 15.6 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-current assets or total revenue.

19. NON-CONTROLLING INTERESTS

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Non-controlling interest	**181.1**	174.6

During the period ended 30 June 2019, the minority party in one of the Group's subsidiary in KSA has injected capital amounting to AED 6.5 million (2018: AED 15.2 million).

20. FAIR VALUE MEASUREMENTS

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

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

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited consolidated financial statements for the year ended 31 December 2018.

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

Financial assets	***Fair Value as at***		***Fair Value hierarchy***	***Valuation techniques and key inputs***	***Significant unobservable input***	***Relationship of unobservable inputs to fair value***
	2019 30 June AED million (unaudited)	*2018 31 December AED million (audited)*				
Unquoted equity investments - FVTPL	**20.3**	19.5	Level 3	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)	Net book value	Refer note 8
Quoted equity investments – FVTPL	**1.8**	1.8	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None	NA
	22.1	21.3				

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

- 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).

21. COMMITMENTS AND CONTINGENT LIABILITIES

	30 June 2019 AED million (unaudited)	*31 December 2018 AED million (audited)*
Capital commitments	**23.4**	35.2
Letters of credit	**3.2**	12.3
Letters of guarantee	**57.3**	56.5