

Gulf Pharmaceutical Industries P.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 MARCH 2019



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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 31 March 2019, which comprises the interim condensed consolidated statement of financial position as at 31 March 2019, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, and interim condensed consolidated statement of cash flows for the three 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 three months ended 31 March 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 31 March 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 280.2 million as at 31 March 2019 and the Group's share of loss from the associate of AED 3.5 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 information.

The above matter was also the basis for the qualified opinion issued on 30 May 2019 by the predecessor auditor.

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

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, 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

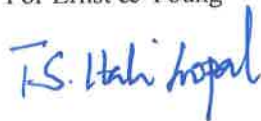
We draw attention to note 2 to the interim condensed consolidated financial statements, which states that the Group incurred a loss of AED 91.6 million during the three months ended 31 March 2019 and, as of that date, the Group's accumulated losses amounted to AED 650.8 million. Moreover, the ban imposed on the Group's products by the Saudi Food Drug Authority continues to have a negative impact on the Group's trading performance, 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 as explained in note 6, 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 three months period ended 31 March 2018 were reviewed by another auditor who issued an unmodified review conclusion on those interim condensed consolidated financial statements in their report dated 15 May 2018.

For Ernst & Young



Signed by:
Thodla Hari Gopal
Partner
Registration No.: 689

29 July 2019

Dubai, United Arab Emirates

Gulf Pharmaceutical Industries P.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2019 (unaudited)

	Notes	<i>Three months ended</i>	
		<i>31 March 2019</i>	<i>31 March 2018</i>
		<i>AED millions</i>	<i>AED millions</i>
Net Sales	4	118.3	264.0
Cost of sales		(111.4)	(164.6)
Gross profit		6.9	99.4
General and administrative expenses		(20.5)	(24.6)
Selling and distribution expenses		(71.8)	(62.3)
Other income		2.3	2.6
Gain from investments and others		1.8	0.5
Share of profit from investment in an associate	6	(3.5)	6.4
Operating (loss)/profit		(84.8)	22.0
Finance income		0.5	1.8
Finance costs		(7.3)	(5.4)
Finance costs – net		(6.8)	(3.6)
(Loss)/profit for the period		(91.6)	18.4
Attributable to:			
Owners of the Parent Company		(89.1)	19.6
Non-controlling interest		(2.5)	(1.2)
		(91.6)	18.4
Basic and diluted earnings per share (in UAE fils)	15	(7.7)	1.7

Gulf Pharmaceutical Industries P.S.C

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2019 (unaudited)

	<i>Three months ended</i>	
	<i>31 March 2019</i>	<i>31 March 2018</i>
	<i>AED millions</i>	<i>AED millions</i>
(Loss)/profit for the period	(91.6)	18.4
Other comprehensive income		
Currency translation differences	(3.3)	2.4
Total comprehensive (loss)/income for the period	(94.9)	20.8
Attributable to:		
Owners of the Parent Company	(92.4)	22.0
Non-controlling interest	(2.5)	(1.2)
	(94.9)	20.8

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

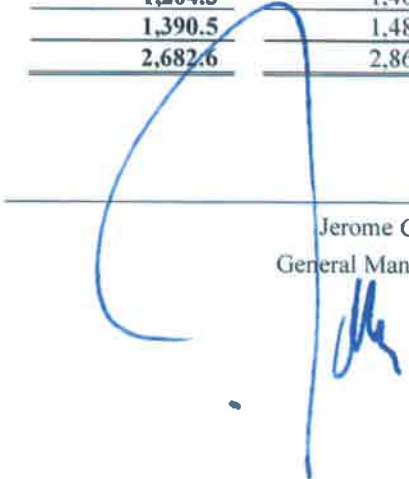
Gulf Pharmaceutical Industries P.S.C

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019 (unaudited)

	Notes	31 March 2019 AED millions (unaudited)	31 December 2018 AED millions (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,121.7	1,126.4
Intangible assets		42.2	43.6
Investment in an associate	6	280.2	283.7
		<u>1,444.1</u>	<u>1,453.7</u>
Current assets			
Inventories	7	335.8	333.4
Financial assets at fair value through profit and loss	8	21.3	21.3
Trade and other receivables	9	817.8	971.7
Bank balances and cash	10	63.6	87.8
		<u>1,238.5</u>	<u>1,414.2</u>
Total assets		<u>2,682.6</u>	<u>2,867.9</u>
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		(141.4)	(138.1)
Retained earnings		(650.8)	(561.7)
Equity attributable to shareholders of the Parent Company		<u>1,113.5</u>	<u>1,205.9</u>
Non-controlling interest		178.6	174.6
Total equity		<u>1,292.1</u>	<u>1,380.5</u>
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service indemnity		69.8	69.2
Bank borrowings	14	116.4	15.8
		<u>186.2</u>	<u>85.0</u>
Current liabilities			
Bank borrowings	14	651.0	786.0
Trade payables and accruals		280.8	325.4
Deferred revenue		272.5	291.0
		<u>1,204.3</u>	<u>1,402.4</u>
Total liabilities		<u>1,390.5</u>	<u>1,487.4</u>
Total equity and liabilities		<u>2,682.6</u>	<u>2,867.9</u>


Sh. Saqer Humaid Al Qasimi
Chairman


Jerome Carle
General Manager

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 CHANGES IN EQUITY

For the three months ended 31 March 2019 (unaudited)

	Attributable to the shareholders of Parent Company							Non-controlling interest AED millions	Total equity AED millions
	Share capital AED millions	Statutory reserve AED millions	Voluntary reserve AED millions	Foreign currency translation reserve AED millions	Fair value reserve AED millions	Retained earnings AED millions	Total AED millions		
Balance at 1 January 2019	1,158.5	562.4	184.8	(138.1)	-	(561.7)	174.6	1,380.5	
Loss for the period	-	-	-	-	-	(89.1)	(2.5)	(91.6)	
Other comprehensive income for the period	-	-	-	(3.3)	-	-	-	(3.3)	
Total comprehensive income for the period	-	-	-	(3.3)	-	(89.1)	(2.5)	(94.9)	
Movement in non-controlling interest	-	-	-	-	-	-	6.5	6.5	
Balance at 31 March 2019	1,158.5	562.4	184.8	(141.4)	-	(650.8)	178.6	1,292.1	
Balance at 1 January 2018	1,124.8	562.4	184.8	(136.6)	2.0	328.3	144.6	2,210.3	
Change in accounting policy	-	-	-	-	(2.0)	(131.3)	-	(133.3)	
Balance at 1 January 2018 (restated)	1,124.8	562.4	184.8	(136.6)	-	197.0	144.6	2,077.0	
Profit for the period	-	-	-	-	-	19.6	(1.2)	18.4	
Other comprehensive income for the period	-	-	-	2.4	-	-	-	2.4	
Total comprehensive income for the period	-	-	-	2.4	-	19.6	(1.2)	20.8	
Movement in non-controlling interest	-	-	-	-	-	-	15.2	15.2	
Balance at 31 March 2018	1,124.8	562.4	184.8	(134.2)	-	216.6	158.6	2,113.0	

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 three months ended 31 March 2019 (unaudited)

	Notes	Three months ended	
		31 March	31 March
		2019	2018
		AED millions	AED millions
Cash flows from operating activities:			
(Loss)/profit for the period		(91.6)	18.4
Adjustments for:			
Depreciation of property, plant and equipment	5	20.2	21.1
Amortisation for intangible assets		1.0	1.6
Share of loss/(profit) from investment in an associate	6	3.5	(6.4)
Allowance for slow-moving inventories	7	5.5	-
Loss/(gain) on revaluation of financial asset at FVTPL	8	-	1.4
Loss on sale of FVTPL		-	1.4
Provision for employees' end of service indemnity		2.1	1.6
Finance costs -net		6.8	3.6
		<u>(52.5)</u>	<u>42.7</u>
Changes in working capital:			
Trade and other receivables		153.9	(1.4)
Inventories		(7.9)	12.7
Trade payables and accruals		(63.1)	8.5
		<u>30.4</u>	<u>62.5</u>
Provision for employees' end of service indemnity paid		(1.5)	-
Net cash flows from operating activities		<u>28.9</u>	<u>62.5</u>
Cash flows from investing activities:			
Additions to property, plant and equipment	5	(17.3)	(11.5)
Additions to investments at FVTPL		-	(16.9)
Sales proceeds from disposal of investment at FVTPL		-	7.3
Interest income		0.5	1.8
Net cash flows used in investing activities		<u>(16.8)</u>	<u>(19.3)</u>
Cash flows from financing activities:			
Proceeds from bank borrowings		100.0	34.8
Repayment of loans		(133.8)	(123.7)
Non-controlling interest		6.5	15.2
Interest paid		(7.3)	(5.4)
Net cash used in financing activities		<u>(34.6)</u>	<u>(79.1)</u>
Net decrease in cash and cash equivalents		<u>(22.5)</u>	<u>(35.9)</u>
Currency translation differences		(1.7)	(1.2)
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	<u>63.6</u>	<u>131.4</u>

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

Gulf Pharmaceutical Industries P.S.C

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (unaudited)

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.

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 three months ended 31 March 2019 was authorised for issue in accordance with the resolution of the Board of Directors on 28 July 2019.

The Company has the following major subsidiaries:

<i>Serial No.</i>	<i>Name of subsidiary</i>	<i>Place of incorporation and operation</i>	<i>Percentage of Ownership</i>		<i>Principle activity</i>
			<i>2019</i>	<i>2018</i>	
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 insulin products
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

Gulf Pharmaceutical Industries P.S.C

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (unaudited)

1 ACTIVITIES (continued)

<i>Serial No.</i>	<i>Name of subsidiary</i>	<i>Place of incorporation and operation</i>	<i>Percentage of Ownership</i>		<i>Principle activity</i>
			<i>2019</i>	<i>2018</i>	
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 three months ended 31 March 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 three months ended 31 March 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 91.6 million during the three months ended 31 March 2019 and, as of date, the Group's accumulated losses amounted to AED 650.8 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). 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (unaudited)

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

2.2 Going concern (continued)

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 expects that the SFDA ban will soon be lifted and, trading activities with existing or new customers will improve;
- b) During the three months ended 31 March 2019, the Group recorded losses amounting to AED 91.6 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 has negotiated with several customers in the Middle East and North Africa region to notably grow trading activities and to 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 28.9 million to ensure business continuity through internal and external sources; and
- d) Subsequent to the period end, the Gulf Health Council (GHC) has also inspected the Company's Ras Al Khaimah facility in Q2 2019 and the management expects a report to be issued in due course.

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual 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 1 January 2019, but these do not have any material impact on the interim condensed financial statements of the Group except 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 7.

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

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

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

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 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of interim condensed 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 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 financial statements for the year ended 31 December 2018.

Gulf Pharmaceutical Industries P.S.C

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (unaudited)

4 SALES

	<i>Three months ended</i>	
	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 March 2018 AED millions (unaudited)</i>
Gross sales	125.5	295.7
Less: commission	(7.2)	(31.7)
	118.3	264.0

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:

	<i>Three months ended</i>	
	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 March 2018 AED millions (unaudited)</i>
GCC	23.4	144.9
Levant	36.8	15.7
Africa excluding Egypt	24.7	93.1
Other countries	33.4	10.3
	118.3	264.0

5 PROPERTY, PLANT AND EQUIPMENT

- Property, plant and equipment additions during the current period amounted to AED 17.3 million (31 March 2018: AED 11.5 million).
- Depreciation charges for the current period amounted to AED 20.2 million (31 March 2018: AED 21.1 million).
- Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 14).
- 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 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 three months ended 31 March 2019 since the impact is immaterial to the overall interim condensed consolidated financial statements of the Group. Subsequent to the period ended 31 March 2019, the subsidiary received AED 0.6 million from the insurance company.

6 INVESTMENT IN 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:

Gulf Pharmaceutical Industries P.S.C

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019 (unaudited)

6 INVESTMENT IN ASSOCIATE (continued)

<i>Name of associate</i>	<i>Place of incorporation and operation</i>	<i>Percentage of ownership</i>	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Planet Pharmacies L.L.C.	UAE	40%	<u>280.2</u>	<u>283.7</u>

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

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Balance at the beginning of the period/year	283.7	268.4
Share of the associate's (loss)/profit for the period/year	<u>(3.5)</u>	<u>15.3</u>
Balance at the ending of the period/year	<u>280.2</u>	<u>283.7</u>

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 three months ended 31 March 2019.

7 INVENTORIES

	<i>31 March 2019 AED millions</i>	<i>31 December 2018 AED millions</i>
Raw materials	120.9	105.9
Packing materials	52.7	52.8
Spare parts	31.7	30.0
Work-in-progress	19.8	29.0
Finished goods	98.0	101.2
Consumables	17.0	16.0
Goods in transit	11.0	8.0
	<u>351.1</u>	<u>342.9</u>
Allowance for slow moving inventories	<u>(15.3)</u>	<u>(9.5)</u>
	<u>335.8</u>	<u>333.4</u>

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7 INVENTORIES (continued)

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

	<i>31 March 2019</i> <i>AED millions</i> <i>(unaudited)</i>	<i>31 December 2018</i> <i>AED millions</i> <i>(audited)</i>
At 1 January	9.5	9.5
Provision for slow-moving inventories	5.8	-
At 31 December	<u>15.3</u>	<u>9.5</u>

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:

	<i>31 March</i> <i>2019</i> <i>AED millions</i> <i>(unaudited)</i>	<i>31 December</i> <i>2018</i> <i>AED millions</i> <i>(audited)</i>
In U.A.E. markets	21.2	21.2
In other G.C.C. markets	0.1	0.1
	<u>21.3</u>	<u>21.3</u>

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

	<i>31 March</i> <i>2019</i> <i>AED millions</i> <i>(unaudited)</i>	<i>31 December</i> <i>2018</i> <i>AED millions</i> <i>(audited)</i>
At 1 January	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	-	16.9
Disposals during the period	-	(20.7)
Net loss on revaluation	-	(1.1)
	<u>21.3</u>	<u>21.3</u>

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 with no change in fair value recorded during the three months ended 31 March 2019. 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).

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9 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Trade accounts receivable	843.6	962.9
Less: allowance for doubtful debts	<u>(415.9)</u>	<u>(419.6)</u>
	427.7	543.3
Due from a related party (note 17(b))	325.6	354.7
Staff receivables	1.6	1.5
Prepaid expenses	17.9	2.8
Advances to suppliers	20.5	44.6
Other receivables	16.7	15.5
VAT receivables	7.8	9.3
	<u>817.8</u>	<u>971.7</u>

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

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
At 1 January	419.6	70.4
Provision for receivables impairment	-	353.9
Reversal of provision on subsequent collection	<u>(3.7)</u>	<u>(4.7)</u>
At 31 December	<u>415.9</u>	<u>419.6</u>

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 (31 December 2018: AED 287.1 million) million related to receivable balances outstanding from this distributor. The net un-provided amount as at 31 March 2019 is AED 234.7 million against which 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 and the remaining balance is expected to be recoverable by the management.

10 CASH AND CASH EQUIVALENTS

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Bank balances:		
Current accounts	49.2	72.8
Short term bank deposits (note (a))	<u>11.0</u>	<u>11.2</u>
	60.2	84.0
Cash in hand	<u>3.4</u>	<u>3.8</u>
Cash and cash equivalents	<u>63.6</u>	<u>87.8</u>

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

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11 SHARE CAPITAL

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
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	<u>1,158.5</u>	<u>1,158.5</u>

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

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Overdraft	274.4	259.2
Loans	<u>493.0</u>	<u>542.6</u>
	<u>767.4</u>	<u>801.8</u>

Bank borrowings shall be repaid as follows:

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Current		
On demand or within one year	<u>651.0</u>	<u>786.0</u>
Non-current		
In the second year	65.2	7.9
In third to seventh year	<u>51.2</u>	<u>7.9</u>
	<u>116.4</u>	<u>15.8</u>
	<u>767.4</u>	<u>801.8</u>

Some of the Group's loan agreements are subject to covenant clauses, whereby the Group is required to meet certain key financial ratios. The Group did not meet the tangible net worth ratio as required in the contract. Due to this breach of the covenant, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of AED 290 million. As a result the liability has been classified as current in these interim condensed consolidated financial statements. Subsequent to the quarter on 22 May 2019, the respective bank granted a waiver to meet tangible net worth ratio.

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14 BANK BORROWINGS (continued)

The bank loan comprise of

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (unaudited)</i>
Ijara Loans	290.7	428.5
Other Loans	202.3	114.1
	<u>493.0</u>	<u>542.6</u>

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. Subsequent to the quarter end, the Group has settled the short term portion of the Ijara loan. 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 & 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 202.3 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. The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 291 million and;
2. Maintenance of certain financial ratios as agreed with the respective banks.

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

The Group have obtained a new loan facility on 31 January 2019 from Arab Bank PLC 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 on 31 January 2020. Subsequent to the three months ended 31 March 2019, the Group has obtained a short term facility of AED 57 million for a period of 1 year which carries interest at EIBOR + 3.5%.

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15 BASIC EARNINGS PER SHARE

	<i>Three months ended</i>	
	<i>31 March 2019</i>	<i>31 March 2018</i>
	<i>AED</i>	<i>AED</i>
	<i>millions</i>	<i>millions</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
(Loss)/profit for the period attributable to the Parent Company	(89.1)	19.6
Weighted average number of shares	1,158.5	1,158.5
Basic (loss)/ earnings per share (in UAE fils)	(7.7)	1.7

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

16 DIVIDENDS

At the Board of Directors meeting held on 28 March 2018, a dividend was proposed of AED 3 fils per share to be distributed as bonus share dividends at 3% of share capital and the distribution of cash dividends at AED 10 fils per share, or 10% cash dividends, 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:

	<i>Three months ended</i>	
	<i>31 March 2019</i>	<i>31 March 2018</i>
	<i>AED millions</i>	<i>AED millions</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales to associate	7.2	87.6
Purchases from affiliates	-	0.8
Compensation to key management personnel		
Short term benefits	1.4	1.7
Long term benefits	0.02	0.02
Board of Directors' remuneration	-	0.3

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17 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

b) *Due from a related party*

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Planet Pharmacies L.L.C. (Associate)	325.6	354.7

c) *Due to a related party*

	<i>31 March 2019 AED millions (unaudited)</i>	<i>31 December 2018 AED millions (audited)</i>
Majan Printing and Packaging Company L.L.C. (Affiliate)	2.5	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.

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.

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18 SEGMENT INFORMATION (continued)

	For the three months ended 31 March 2019 (unaudited)				For the three months ended 31 March 2018 (unaudited)			
	Manufacturing AED millions	Investments AED millions	Other segments AED millions	Total AED millions	Manufacturing AED millions	Investments AED millions	Other segments AED millions	Total AED millions
Segment revenue	118.3	-	-	118.3	264.0	-	-	264.0
Segment result	(86.6)	1.8	(6.8)	(91.6)	21.5	0.5	(3.6)	18.4
Depreciation expense	20.2	-	-	20.2	21.1	-	-	21.1
Share of associate's (loss) / profit	-	(3.5)	-	(3.5)	-	6.4	-	6.4
	31 March 2019				31 December 2018			
	Manufacturing AED millions	Investments AED millions	Other segments AED millions	Total AED millions	Manufacturing AED millions	Investments AED millions	Other segments AED millions	Total AED millions
Segment assets	2,317.5	301.5	63.6	2,682.6	2,475.1	305.0	87.8	2,867.9
Segment liabilities	623.2	-	767.3	1,390.5	685.6	-	801.8	1,487.4

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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.

(AED m)	31 March 2019 (Unaudited)			
	Total	UAE	Saudi Arabia	Others
Non-current assets				
Property, plant and equipment	1,121.7	832.6	264.4	24.7
Intangible Assets	42.2	3.7	-	38.5
	Three months ended 31 March 2019 (Unaudited)			
Revenue	118.3	12.1	0.1	106.1
	31 December 2018 (audited)			
(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
	Three months ended 31 March 2018 (Unaudited)			
Revenue	264.0	74.2	66.4	123.4

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 three month ended 31 March 2019 to these customers amounts to AED 35.9 million (2018: AED 140.6 million). These revenues are included under manufacturing segment. Included under "others" intangibles amounting to AED 23.2 million (2018: AED 24.0 million) in Egypt and AED 15.3 million (2018: AED 16.4 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

During the period ended 31 March 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 annual consolidated financial statements for the year ended 31 December 2018.

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20 FAIR VALUE MEASUREMENT (continued)

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

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

<i>Financial assets</i>	<i>Fair Value as at</i>		<i>Fair Value hierarchy</i>	<i>Valuation techniques and key inputs</i>	<i>Significant unobservable input</i>	<i>Relationship of unobservable inputs to fair value</i>
	<i>2019</i>	<i>2018</i>				
	<i>31 March</i>	<i>31 December</i>				
	<i>AED</i>	<i>AED</i>				
	<i>millions</i>	<i>millions</i>				
Unquoted equity investments - FVTPL	19.5	19.5	Level 3	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)	Net book value	Refer Note 7
Quoted equity investments – FVTPL	1.8	1.8	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None.	NA
	<u>21.3</u>	<u>21.3</u>				

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

	<i>31 March</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>AED millions</i>	<i>AED millions</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Capital commitments	22.0	35.2
Letters of credit	8.0	12.3
Letters of guarantee	62.3	56.5