

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Gulf Pharmaceutical Industries P.S.C. (the “Company”) and its subsidiaries (the “Group” or “Julphar”) is pleased to present their report along with the audited consolidated financial statements of the Group for the year as of and ended 31 December 2020.

Financial Performance

Julphar recorded net sales of AED 581.2 million, a 93% against 2019 net sales of AED 301.5 million.

The loss is AED 317.4 million for the year ended 31 December 2020 as compared to a loss of AED 518.9 million in the previous year.

Outlook 2021:

Julphar Group has made significant strides in the financial year 2020 as the company restarted exporting to our key markets Saudi Arabia, Oman & Kuwait after the successful reinspection by the health authorities of Saudi Arabia and GCC in January 2020. As we move forward, we will consolidate our market position and expand our market share in the MENA region. The ongoing transformation program will make the Company more competitive in the new business reality. We have been conducting a comprehensive review of all areas of our business to identify cost savings and generate efficiency improvements. The divestment of identified non-core activities will be completed in 2021. We will enter into new alliances, launch new products and optimize our portfolio, all of which will have a positive impact on the long term performance. A number of new senior appointments have been made to our Management Team in 2020 who will be charged with pushing the company’s expansion strategy. In the coming years we will invest in our workforce, launch new training and development programs addressing the changing demands and market requirements. We are confident that all initiated programs will support the transformation of Julphar and will help to return to profitability and positive cash flow generation.

Proposed dividend

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

Auditors

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

Acknowledgements

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

On behalf of the Board,

Sh. Saqer Humaid Al Qasimi
Chairman

_____ 2021



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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gulf Pharmaceuticals Industries P.S.C. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the “*IESBA Code*”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

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

Key Audit Matters (continued)

<i>Key Audit Matter</i>	<i>How our audit addressed the Key Audit Matter</i>
<p><u>Going concern assessment:</u></p> <p>As explained in note 2 to the accompanying consolidated financial statements, the Group incurred a loss of AED 317.4 million during the year ended 31 December 2020 and, as of that date, the Group's accumulated losses amounted to AED 293.2 million, and the Group had negative cash outflow from operating activities of AED 166.2 million.</p> <p>As disclosed in the assessment of liquidity risk in note 32 to the consolidated financial statements, the Group has financial liabilities of AED 537.9 million to be settled within one year from 31 December 2020. The Group has cash and cash equivalents of AED 73.7 million and unutilized credit facilities of AED 120.0 million.</p> <p>The consolidated financial statements have been prepared by the management on a going concern basis. The availability of sufficient funding and management's assessment of whether the Group will be able to continue meeting its obligations under its financing covenants were important for the going concern assumption and, as such, were significant aspects of our audit. This assessment was largely based on the expectations of, and the estimates made by management. The expectations and estimates can be influenced by subjective elements such as estimated future cash flows, forecasted results and margins from operations.</p>	<p>Our procedures to test the assessment of going concern prepared by the Group management included the following:</p> <ul style="list-style-type: none"> ▪ We obtained through inquiry an understanding of the process over the liquidity assessment, compliance with the debt covenants and preparation of the cash flow forecast; ▪ We analysed management's future cash flow forecasts, and the process by which they were prepared, and reviewed the underlying key assumptions such as expected cash inflow from product sales, external funding and cash outflow from operating and other activities; ▪ Regarding revenue expectations, we reviewed the reasonableness of the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are in line with historical revenues to date, approved purchase orders to date and budget approved by the Board of Directors. We also enquired about an alternative scenario analysis of management using the low end of revenue forecasts and accompanying key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would lead to alternative conclusions; ▪ We read the minutes of the meeting of the Board of Directors in order to understand future plans and to identify potential contradictory information; ▪ Obtained an understanding of the financing plan, and the progress made on executing against the plan up to the date of this report. We reviewed the financing options being considered by the Group and made our own assessment of the likelihood and feasibility of each option; ▪ We agreed the details of the Group's credit facilities (including the amendment and extension of credit facilities) to the supporting documentation; and ▪ We assessed the adequacy of the disclosures with respect to the going concern assessment.

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF
GULF PHARACEUTICALS INDUSTRIES P.S.C. (continued)**

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

Key Audit Matters (continued)

<i>Key Audit Matter</i>	<i>How our audit addressed the Key Audit Matter</i>
<p><u>Impairment of non-financial assets:</u></p> <p>The Group performed a quantitative impairment assessment on its cash generating units (CGUs). Management conducted the impairment test based on its assessment of indicators such as deteriorated operational performance of the Group in recent years as detailed in note 2 to the consolidated financial statements. The operational performance issues and losses indicate that the carrying value of the non-financial assets of the Group might not be recoverable.</p> <p>Management identified six independent CGUs, CGU I, CGU II, CGU III, CGU IV, CGU V and CGU VI, for the purposes of impairment assessment of the Group. For the CGUs where impairment indicators exist, management estimated the recoverable amounts of the CGUs, being higher of fair value less costs of disposal (“FVLCD”) and value in use (“VIU”).</p> <p>Following the impairment assessments of the CGUs, an impairment of AED 37.7 million has been recorded to reduce the carrying value of certain assets in a CGU to their estimated recoverable values, which is the assessed under FVLCD.</p> <p>Given the significant judgments made by management to estimate the recoverable amount of the CGUs, performing audit procedures to evaluate the reasonableness of management’s estimates and assumptions required a high degree of auditor judgment and an increased extent of effort and resources. Accordingly, we have identified this to be a key audit matter.</p> <p>Refer to note 15 to the consolidated financial statements for the relevant disclosures and note 3.7 for key source of estimation uncertainty.</p>	<p><u>Procedures for all CGUs:</u></p> <p>Our procedures to test the impairment analysis prepared by the management of the Group for the identified CGUs included the following:</p> <ul style="list-style-type: none"> ▪ Where impairment indicators exist, we examined the methodology used by management to assess the recoverable amounts of the CGUs to determine its compliance with International Financial Reporting Standards (IFRS); ▪ We reviewed the assumptions used by the management of the Group in determining the fair value of the CGUs, including those completed by external valuers, and assessing whether appropriate valuation methodologies have been applied; ▪ Performed sensitivity analyses of significant assumptions used to evaluate the change in the fair value of the CGUs resulting from changes in the inputs and assumptions. We also assessed the historical accuracy of management’s projections by comparing with the actual data; ▪ Assessed the adequacy of the related disclosures in the notes to the consolidated financial statements; <p><u>Specific procedures for CGU I:</u></p> <ul style="list-style-type: none"> ▪ We evaluated the appropriateness of buyout proposal received and checked if it reflects the optimal value that the Group could receive from a market participant as per the requirements of IFRS 13; <p><u>Specific procedures for CGU II:</u></p> <ul style="list-style-type: none"> ▪ We evaluated the independent external valuer’s competence, capabilities and objectivity; ▪ We reviewed the valuation report of the independent valuers, including the reasonableness of the key assumptions used in determining the fair value of the specific assets within the CGU;

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

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

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	<p><u>Specific procedures for CGU III:</u></p> <ul style="list-style-type: none"> ▪ We evaluated the reasonableness of management's forecasts for (a) annual revenue growth rates, (b) Gross margins, (c) Terminal growth rate, (d) operating expenses, (e) Capital expenditure, and (f) working capital changes by comparing the forecasts to (1) the historical operating results of the CGU (2) internal communications to management and the Board of Directors; and ▪ With the support of our internal valuation specialists we assessed the appropriateness of WACC and terminal growth rate used in the estimation of cash flow forecasts.
<p><u>Allowance for slow-moving inventories:</u> The gross balance of inventory as at 31 December 2020 is AED 360.2 million, against which provision for slow moving and obsolete inventory amounting to AED 56.0 million was made. The Group assesses the valuation of all inventory items including raw materials, packing materials, work-in process and finished goods at each reporting date. Obsolete, expired, slow-moving and defective inventories are written down to its estimated net realisable value if less than cost.</p> <p>We have considered allowance for slow-moving inventories to be a key audit matter because it requires management's assessment of the estimates of whether a write down is required. Key parameter for the inventory valuation is the expiration dates of the inventory. The measurement of any excess of cost over net realisable value is judgemental considering the involvement of a number of qualitative factors that are affected by market and economic conditions outside the Group's control.</p> <p>Refer to note 3.7 to the consolidated financial statements for the for key source of estimation uncertainty, note 17 for inventory disclosure and movement of allowance for slow-moving inventories.</p>	<p>As part of our audit, the procedures to test the management estimates of allowance for slow-moving and obsolete inventory included the following:</p> <ul style="list-style-type: none"> ▪ We obtained through inquiry an understanding from the management and evaluated the design of the internal controls over Group's process pertaining to inventory valuation and allowance for slow-moving inventories. We also obtained an understanding about the management's assessment of inventory valuation, including the development of forecasted usage of inventories and consideration of how factors outside the Group's control might affect management's judgement related to valuation of slow-moving, expired, obsolete and defective inventory; ▪ We evaluated the significant assumptions taken by the management and tested the completeness of the underlying data used by management to value the slow-moving inventories; ▪ We performed analysis on specific provision for defective products made by the management based on reports pertaining to procurement of materials from the unqualified vendors and quality assessment of the finished goods;

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

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

Key Audit Matters (continued)

<i>Key Audit Matter</i>	<i>How our audit addressed the Key Audit Matter</i>
	<ul style="list-style-type: none"> ▪ We tested the expiration dates of the inventory for a sample of inventory items based on the product expiration reports and compared the provision based on the report with provision recognised by the management; ▪ We tested the valuation of year-end inventory for a sample of selected inventory items, including review of judgements considered regarding obsolescence and net realizable value; ▪ We recomputed the closing allowance for slow-moving inventory balance in the movement schedule and agreed it to the consolidated financial statements; and ▪ We also checked that appropriate disclosures have been made in the consolidated financial statements in compliance with the International Financial Reporting Standards.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Consolidated Financial Statements

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Responsibilities of Management and Board of Directors for the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Director's report is consistent with the books of account of the Company;
- v) investments in shares and stocks during the year ended 31 December 2020 (if any), are disclosed in note 18 to the consolidated financial statements;
- vi) note 29 reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the year ended 31 December 2020, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or Articles of Association of the Company which would materially affect its activities or its financial position as at 31 December 2020; and



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

Report on Other Legal and Regulatory Requirements (continued)

viii) note 8 reflects the social contributions made during the year ended 31 December 2020.

For Ernst & Young

A handwritten signature in blue ink that reads 'T.S. Hari Gopal'.

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

17 March 2021

Sharjah, United Arab Emirates

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	<i>Notes</i>	<i>2020 AED millions</i>	<i>2019 AED millions</i>
Continuing operations			
Revenue from contracts with customers	4	581.2	301.5
Cost of sales	5	(393.3)	(370.0)
		187.9	(68.5)
Gross profit/ (loss)			
Other income	6	3.9	7.1
Selling and distribution expenses	7	(332.8)	(319.9)
General and administrative expenses	8	(109.3)	(81.8)
Impairment of property, plant and equipment	15	(37.7)	-
Share of profit/ (loss) of an associate	12	6.1	(19.2)
(Loss)/ gain from investments and others		(2.0)	3.2
		(283.9)	(479.1)
Operating loss			
Finance income	9	2.1	1.0
Finance costs	10	(34.4)	(33.9)
		(316.2)	(512.0)
Loss before tax for the year from continuing operations			
Income tax	11	1.4	2.0
		(314.8)	(510.0)
Loss for the year from continuing operations			
Discontinued operations			
Loss for the year from discontinued operations	13	(2.6)	(8.9)
		(317.4)	(518.9)
LOSS FOR THE YEAR			
Loss attributable to:			
Equity holders of the Parent		(293.2)	(503.2)
Non-controlling interests		(24.2)	(15.7)
		(317.4)	(518.9)
Earnings per share:			
Basic and diluted			
Loss per share attributable to the equity holders of the Parent (in UAE fils)	14	(27.7)	(43.4)
Earnings per share for continuing operations:			
Basic and diluted			
Loss per share from continuing operations attributable to the equity holders of the Parent (in UAE fils)	14	(27.8)	(43.1)

The attached notes 1 to 37 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 AED millions	2019 AED millions
Loss for the year	(317.4)	(518.9)
Other comprehensive income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Currency translation differences	<u>(4.3)</u>	<u>(4.1)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(321.7)</u>	<u>(523.0)</u>
Total comprehensive loss attributable to:		
Equity holders of the Parent	(297.5)	(507.3)
Non-controlling interests	(24.2)	(15.7)
	<u>(321.7)</u>	<u>(523.0)</u>

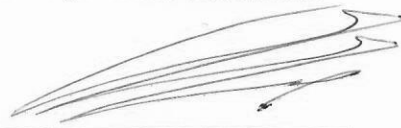
The attached notes 1 to 37 form part of these consolidated financial statements.

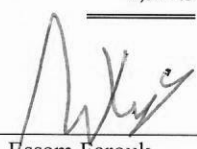
Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		<i>2020</i>	<i>2019</i>
		<i>AED</i>	<i>AED</i>
		<i>millions</i>	<i>millions</i>
ASSETS			
Non-current assets			
Property, plant and equipment	15	901.3	1,014.8
Intangible assets	16	15.0	20.1
Investment in an associate	12	270.6	264.5
Deferred tax asset	11	1.8	3.9
		<u>1,188.7</u>	<u>1,303.3</u>
Current assets			
Inventories	17	294.3	293.6
Financial assets at fair value through profit or loss	18	19.7	22.1
Trade and other receivables	19	647.7	667.8
Bank balances and cash	20	73.7	58.8
		<u>1,035.4</u>	<u>1,042.3</u>
Assets held for sale	13	103.2	104.9
		<u>1,138.6</u>	<u>1,147.2</u>
TOTAL ASSETS		<u><u>2,327.3</u></u>	<u><u>2,450.5</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	21	1,155.3	1,158.5
Statutory reserve	22	185.5	185.5
Foreign currency translation reserve		(146.5)	(142.2)
Accumulated losses		(293.2)	(503.2)
Equity attributable to shareholders of the Parent		<u>901.1</u>	<u>698.6</u>
Non-controlling interests	24	168.8	179.4
Total equity		<u>1,069.9</u>	<u>878.0</u>
Non-current liabilities			
Provision for employees' end of service benefits	25	59.4	59.1
Bank and other borrowings	26	220.9	250.0
Deferred tax liability	11	3.7	4.0
		<u>284.0</u>	<u>313.1</u>
Current liabilities			
Trade payables and accruals	27	338.5	311.1
Bank and other borrowings	26	390.9	652.8
Deferred revenue	28	207.0	267.2
		<u>936.4</u>	<u>1,231.1</u>
Liabilities directly associated with the assets held for sale	13	37.0	28.3
		<u>973.4</u>	<u>1,259.4</u>
Total liabilities		<u>1,257.4</u>	<u>1,572.5</u>
TOTAL EQUITY AND LIABILITIES		<u><u>2,327.3</u></u>	<u><u>2,450.5</u></u>


 Sh Saqer Humaid Al Qasimi
 Chairman


 Dr. Essam Farouk
 Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Attributable to the equity holders of the Parent

	<i>Share capital AED million</i>	<i>Statutory reserve AED million</i>	<i>Voluntary reserve AED million</i>	<i>Foreign currency translation reserve AED million</i>	<i>Accumulated losses AED million</i>	<i>Total AED million</i>	<i>Non- controlling interests AED million</i>	<i>Total equity AED million</i>
As at 1 January 2019	1,158.5	562.4	184.8	(138.1)	(561.7)	1,205.9	174.6	1,380.5
Loss for the year	-	-	-	-	(503.2)	(503.2)	(15.7)	(518.9)
Other comprehensive loss	-	-	-	(4.1)	-	(4.1)	-	(4.1)
Total comprehensive loss for the year	-	-	-	(4.1)	(503.2)	(507.3)	(15.7)	(523.0)
Utilisation of statutory and voluntary reserve (notes 22 and 23)	-	(376.9)	(184.8)	-	561.7	-	-	-
Movement in non-controlling interests (note 24)	-	-	-	-	-	-	20.5	20.5
As at 31 December 2019	1,158.5	185.5	-	(142.2)	(503.2)	698.6	179.4	878.0
Share capital reduction (note 21(a))	(503.2)	-	-	-	503.2	-	-	-
Share capital issued against right shares (note 21(b))	500.0	-	-	-	-	500.0	-	500.0
Loss for the year	-	-	-	-	(293.2)	(293.2)	(24.2)	(317.4)
Other comprehensive loss	-	-	-	(4.3)	-	(4.3)	-	(4.3)
Total comprehensive loss for the year	-	-	-	(4.3)	(293.2)	(297.5)	(24.2)	(321.7)
Movement in non-controlling interests (note 24)	-	-	-	-	-	-	13.6	13.6
As at 31 December 2020	1,155.3	185.5	-	(146.5)	(293.2)	901.1	168.8	1,069.9

The attached notes 1 to 37 form an integral part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

		2020	2019
		AED	AED
		millions	millions
OPERATING ACTIVITIES			
Loss before tax for the year before tax from continuing operations		(316.2)	(512.0)
Loss for the year from discontinued operations	13(c)	(2.6)	(8.9)
		<hr/>	<hr/>
Loss before tax for the year		(318.8)	(520.9)
Adjustments for:			
Depreciation of property, plant and equipment	15	93.2	82.3
Amortisation of intangible assets	16	5.1	5.6
Impairment of property, plant and equipment	15	37.7	-
Impairment of assets held for sale	13(c)	0.5	4.4
Impairment of intangible assets	16	-	1.7
Share of (profit)/ loss from investment in an associate	12	(6.1)	19.2
Allowance for slow-moving inventories	17	46.4	39.1
Allowance/ (reversal) for expected credit loss on receivables	19	1.9	(3.7)
Loss/ (gain) on revaluation of financial asset at fair value through profit or loss (FVTPL)	18	2.3	(0.8)
Provision for employees' end of service benefits	25	11.3	7.3
Finance income	9	(2.2)	(1.1)
Finance costs	10	36.1	35.2
		<hr/>	<hr/>
		(92.6)	(331.7)
Changes in working capital			
Trade and other receivables		18.2	322.7
Inventories		(47.1)	0.7
Trade payables, accruals and deferred revenue		(32.8)	(62.7)
		<hr/>	<hr/>
Cash used in operations		(154.3)	(71.0)
Employees' end of service benefits paid	25	(11.9)	(13.6)
		<hr/>	<hr/>
Net cash flows used in operating activities		(166.2)	(84.6)
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	(16.1)	(34.7)
Proceeds from sale of financial asset at FVTPL		0.1	-
Finance income received		2.2	1.1
		<hr/>	<hr/>
Net cash flows used in investing activities		(13.8)	(33.6)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Proceeds from bank borrowings	26	160.0	462.0
Repayment of bank borrowings	26	(450.5)	(359.9)
Increase in share capital	21(b)	500.0	-
Increase in non-controlling interest	24	13.6	20.5
Interest paid		(36.1)	(35.2)
		<hr/>	<hr/>
Net cash from financing activities		187.0	87.4
		<hr/>	<hr/>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		7.0	(30.8)
Currency translation differences		7.9	1.8
Cash and cash equivalents at 1 January		58.8	87.8
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	73.7	58.8
		<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 37 form part of these consolidated financial statements.

1. ACTIVITIES

Gulf Pharmaceutical Industries is a public shareholding company (the “Company” or “Parent Company”) domiciled in Digdaga - Ras Al Khaimah. It was incorporated by the Emiri decree No.5/80 issued by H.H. The Ruler of the Emirate of Ras Al Khaimah and its dependencies on 30 March 1980 and the Emiri decree No.9/80 on 4 May 1980.

The Company’s registered office address is P.O. Box. 997 Ras Al Khaimah, United Arab Emirates (UAE). The Company commenced its commercial activities effective from November 1984. The Company’s ordinary shares are listed on the Abu Dhabi Securities Exchange.

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

Information on the Group’s structure is provided in note 3.3. Information on related party relationships of the Group is provided in note 29.

The consolidated financial statements were authorised for issue in accordance with the resolution of the Board of Directors on 17 March 2021.

2. ASSESSMENT OF GOING CONCERN ASSUMPTION

During the year ended 31 December 2020, the Group incurred a loss of AED 317.4 million and, as of that date, the Group’s accumulated losses amounted to AED 293.2 million and the Group had negative cash outflow from operating activities of AED 166.2 million. Further, during early 2021, all batches of a Group’s product were recalled by the United Arab Emirates Ministry of Health (MOH) for stability reasons.

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group’s future performance, capital and liquidity. The consolidated financial statements have been prepared on a going concern basis considering the following:

- a) The temporary suspension for exports to the Kingdom of Saudi Arabia, Sultanate of Oman, State of Kuwait and Kingdom of Bahrain was lifted during the year ended 31 December 2020 and the Group has relaunched successfully its portfolio except for certain products that still remain suspended in these countries. This will positively impact the Group’s profitability and its operating cashflows in the future period.
- b) During the year ended 31 December 2020, the Group has successfully completed a rights issue in July 2020. The proceeds from the rights issues were used to repay the loan from the shareholder of AED 300 million and the remaining proceeds will be used for future working capital requirements.
- c) The Parent Company is in the final stages of restructuring its existing borrowings through a syndicated loan facility with a consortium of local banks to bridge its current and future working capital requirements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis except for financial assets measured at fair value through profit or loss (note 18) and a disposal group held for sale measured at fair value less cost to sell (note 13).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.2 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Law No. (2) of 2015 (as amended).

Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Group is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

3.3 Basis of consolidation

These consolidated financial statements reflect the operations of the Group as at 31 December 2020. By virtue of shareholder and other agreements, the Company holds directly or indirectly (through nominees) a controlling interest and has the power to govern the financial and operating policies in each of the subsidiaries listed below (collectively referred to as the "Group" and individually referred to as "Group Entities"):

<i>Serial No.</i>	<i>Name of subsidiary</i>	<i>Place of incorporation and operation</i>	<i>Percentage of Ownership</i>		<i>Subsidiary activity</i>
			<i>2020</i>	<i>2019</i>	
<i>Direct subsidiaries</i>					
1.	Mena Cool Transportation F.Z.E.	Ras Al Khaimah UAE	100%	100%	Transportation
2.	Julphar Pharmaceuticals P.L.C.	Ethiopia	55%	55%	Manufacturing medicines
3.	Gulf Inject L.L.C. (note (b) and (c))	Dubai – UAE	100%	100%	Manufacturing medical supplies
4.	Alpha Pharma L.L.C. (formerly Julphar Saudi Arabia L.L.C.)	Rabigh – Saudi Arabia	51%	51%	Manufacturing medicines
5.	Julphar SES L.L.C. (note (a))	Cairo – Egypt	99.8%	99.8%	General trading
6.	Julphar Diabetes L.L.C. (note (a))	Ras Al Khaimah – UAE	100%	100%	Manufacturing medicines
7.	Julphar Company for Trading and Distribution L.L.C. (note (a))	Cairo – Egypt	99.8%	99.8%	General Trading
8.	Mena Cool Machinery Trading (note (a))	Ras Al Khaimah – UAE	100%	100%	General Trading
9.	Julphar Life L.L.C. (note (a))	Ras Al Khaimah – UAE	100%	100%	General Trading
10.	Julphar Pakistan Private Limited (note (a) and (e))	Pakistan	100%	100%	Distributor of Julphar's products in Pakistan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

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

Serial No.	Name of subsidiary	Place of incorporation and operation	Percentage of Ownership		Subsidiary activity
			2020	2019	
Direct subsidiaries (continued)					
11.	Julphar Tunisie (note (a))	Tunisia	99%	99%	Distributor of Julphar's products in Tunisia
12.	Julphar Gulf Pharmaceuticals Kenya Limited (note (a))	Kenya	99.99%	99.99%	Distributor of Julphar's products in Kenya

Indirect subsidiaries*Subsidiary of Mena Cool Machinery Trading*

1.	Julphar General Trading L.L.C. (note (a) and (e))	Ras Al Khaimah – UAE	100%	100%	General Trading
----	---	----------------------	-------------	------	-----------------

Subsidiary of Julphar General Trading L.L.C.

21.	Julphar Bangladesh Limited (note (b))	Dhaka – Bangladesh	50.5%	50.5%	Manufacturing of medicines
-----	---------------------------------------	--------------------	--------------	-------	----------------------------

Subsidiary of Julphar Company for Trading and Distribution L.L.C

1.	Julphar Egypt Company L.L.C. (note (e))	Cairo – Egypt	100%	100%	Distributors of Julphar's products in Egypt
----	---	---------------	-------------	------	---

Subsidiary of Julphar Egypt Company L.L.C.

1.	Julphar Plus (note (d) and (e))	Cairo – Egypt	100%	-	Manufacturing and distribution of medicines
----	---------------------------------	---------------	-------------	---	---

- a) These subsidiaries are not operational, and the financial results are immaterial to the overall consolidated financial statements of the Group.
- b) During the year ended 31 December 2019, the management has classified these subsidiaries as disposal group held for sale (note 13). The sale of Julphar Bangladesh Limited is expected to be complete by end of March 2021.
- c) As of the reporting date, the sale of the subsidiary has not been completed and the management of the Parent Company is actively looking for sale at a reasonable price acceptable under current market conditions (note 13(a)).
- d) On 19 November 2020, shareholders of M/s Julphar Plus, through nominee agreement, agreed to transfer the absolute and full ownership to M/s Julphar Egypt Company LLC. This nominee arrangement has been accounted for as an acquisition of assets, as it does not constitute a business under IFRS 3 Business Combinations.
- e) Certain % of the Group's ownership stake in these entities is held through beneficial ownership arrangement with the legal owner.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Basis of consolidation (continued)

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

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

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

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

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

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

3.4 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020 as mentioned below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These new standards and interpretations are disclosed below.

- Amendments to IFRS 3 - Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 - Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

Annual Improvements 2018-2020 cycle (issued in May 2020)

- Amendments to the illustrative examples accompanying IFRS 16 Leases - Lease incentives

The amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

3.5 Standards issued but not yet effective

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Standards issued but not yet effective (continued)

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023 and apply prospectively)
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective from annual periods beginning on or after 1 January 2023 and must be applied retrospectively)
- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective from annual periods beginning on or after 1 January 2022. The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018))
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective from annual periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment)
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective from annual periods beginning on or after 1 January 2022. The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.)
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective from annual periods beginning on or after 1 January 2021 with earlier application permitted)
- Covid-19 Related Rent Concessions - Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments must be applied prospectively. Early application is permitted and must be disclosed).

Annual Improvements 2018-2020 cycle (issued in May 2020)

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)
- IAS 41 Agriculture – Taxation in fair value measurements (effective from annual periods beginning on or after 1 January 2022 with earlier application permitted)

3.6 Summary of significant accounting policies

Business combinations and goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate on its face. Unrealized gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate. At each reporting end, the investment in associate is considered for evidence of any impairment. In case of impairment the difference between carrying amount and fair value is recognised in consolidated statement of profit and loss.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Investment in an associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is classified as current when:

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

The Group classifies all other liabilities as non-current.

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosure for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in note 33.

Revenue from contracts with customers

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

Sale of goods

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

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

Variable consideration

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Rights of return

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

Customer option that provides a material right

Free goods

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

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

Contract balances

Trade receivables

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

Contract liabilities

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

Assets and liabilities arising from rights of return

Rights of return assets

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

Refund liabilities

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

Interest income

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

Value added tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

Buildings	10 to 50 years
Plant and machinery	3 to 17 years
Installations	4 to 25 years
Motor vehicles	3 to 10 years
Furniture and fixtures	4 to 10 years
Tools and equipment	3 to 10 years
Leasehold improvements	10 to 25 years

Capital work-in-progress is not depreciated and is stated at cost. When ready for intended use, capital work in progress is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with Group's policy.

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

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

Intangible assets

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

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

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

Research and development costs

Research and development costs are charged to the consolidated statement of profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.6 Summary of significant accounting policies (continued)****Intangible assets (continued)***Licenses and permits*

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

Computer Software

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

A summary of the policies applied to the Group's intangible assets is, as follows:

	<i>Licenses and permits</i>	<i>Computer software</i>
<i>Useful lives</i>	Finite (5 to 20 years)	Finite 3 years
<i>Amortisation method used</i>	Amortised on a straight-line basis over the period of the license and permit	Amortised on a straight-line basis over the period of the useful life
<i>Internally generated or acquired</i>	Acquired	Acquired

Inventories

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

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

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

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

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

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

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

Goods-in-transit

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Inventories (continued)

Spare parts and consumables

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

Impairment of non-financial assets

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

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

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

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

Leases

Right-of-use assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Leases (continued)

Lease liabilities (continued)

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.

Financial instruments - initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

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

The Group's financial assets include bank balances, receivables and due from related parties and financial assets at fair value through profit or loss.

Subsequent measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement(continued)

Financial assets at amortised cost

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

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

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

The Group's bank balances, receivables and due from related parties are financial assets measured at amortised cost.

Financial assets at fair value through profit or loss

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

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

This category includes listed equity investments and unquoted investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments and unquoted investments are also recognised as revenue in the consolidated statement of profit or loss when the right of payment has been established.

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

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

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition (continued)

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

Impairment of financial assets

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities at amortised cost (loans and borrowings)

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

This category generally applies to bank and other borrowings, due to related parties, trade payables and accruals.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Derecognition

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

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

iii) Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Employee's end of service benefits

Employees' benefits to non-UAE nationals employees

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

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

Pension and social security policy with the UAE

The Group is a member of the pension scheme operated by the federal Pension General and Social Security Authority. Contributions for eligible UAE national employees are made and charged to the consolidated statement of profit or loss in accordance with the provisions of the applicable law. The Group has no further payment obligations once the contribution has been paid. The Group has categorized the contribution policy as defined contribution plan.

Taxes

Current tax

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

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

Deferred tax

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax (continued)

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

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

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

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

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

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

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

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

Foreign currencies

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

i) Transactions and balances

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Foreign currencies (continued)

i) Transactions and balances (continued)

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

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

ii) Group companies

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

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

Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

Borrowing costs

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

Provisions

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

Cash dividend

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

Contingencies

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

3.7 Significant accounting judgements, estimates and assumptions

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

Judgements

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

Spare parts and consumables as inventory

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

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

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

Assets held for sale

During the year 2019, the Board of Directors announced its decision to sell Gulf Inject L.L.C. and Julphar Bangladesh Limited. Operations of both the subsidiaries are classified as a disposal group held for sale. The Board considered the subsidiaries to meet the criteria to be classified as held for sale at that date for the following reasons:

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

For more details on discontinued operations refer note 13.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Classification of financial assets

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

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

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

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

Estimates and assumptions

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

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross goods for resale and provision for inventories were disclosed in note 17. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

Provision for stock losses

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

1. Raw materials - Raw materials with near expiry are assessed for use in the production or for any alternative options. If the raw materials are deemed not to be usable, provision for expiry is recorded in the consolidated statement of financial position.
2. Packaging materials - Packaging materials which are for discontinued products or inactive are assessed for any other alternative options. If the packaging materials are deemed not to be usable, provision is recorded in the consolidated statement of financial position.
3. Finished Goods - Finished goods with less than 1/3 shelf life are deemed not to be usable or sold in the market as per Ministry regulations. Full provision for finished goods with less than 1/3 shelf life is recorded in the consolidated statement of financial position.

At the reporting date, provision for stock losses were AED 56.0 million (2019: 18.0 million) (note 17). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Fair value of financial instruments

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

Impairment of non-financial assets

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

Useful lives of property and equipment

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

Provision for expected credit losses on financial assets

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

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

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

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

Deferred tax

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

As the Group, based on projection of future profitability, believes that it would have sufficient taxable profits in the future, therefore, the Group has recognized a deferred tax asset amounting to AED 1.8 million (2019: AED 3.9 million) relating to tax losses (note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.7 Significant accounting judgements, estimates and assumptions (continued)****Estimates and assumptions (continued)****Revenue recognition and deferred revenue**

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

Deferred revenue is computed on the basis of estimated standalone selling price. The estimated standalone selling price is dependent on value of debit notes received and the estimated standalone selling prices of goods sold. An increase or decrease in the estimated standalone selling price by 3% will decrease / increase the loss for the year with a corresponding decrease / increase in the amount of deferred revenue as at 31 December 2020 by approximately AED 2.2 million (2019: AED 8.0 million).

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

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

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

	2020	2019
	AED	AED
	millions	millions
Gross sales	660.6	359.9
Less: commission	(39.5)	(18.4)
Net Sales	621.1	341.5
Less: net sales relating to discontinued operations (note 13(c))	(39.9)	(40.0)
	581.2	301.5

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

	2020	2019
	AED	AED
	millions	millions
Geographic information		
UAE	91.2	9.1
Other GCC countries	136.0	34.1
Other countries	393.9	298.3
	621.1	341.5
Less: net sales relating to discontinued operations (note 13(c))	(39.9)	(40.0)
	581.2	301.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)**4.2 Contract balances**

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Contract assets		
Trade receivables (note 19)	433.2	376.8
Due from a related party (note 19)	174.2	266.6
	<u>607.4</u>	<u>643.4</u>
	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Contract liabilities		
Refund liabilities (note 27)	128.3	85.5
Advances from customers (note 27)	31.0	5.6
Deferred revenue (note 28)	207.0	267.2
Commissions payable (note 27)	35.4	52.5
	<u>401.7</u>	<u>410.8</u>

4.3 Performance obligations

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows (note 28):

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Within one year	207.0	267.2
More than one year	-	-
	<u>207.0</u>	<u>267.2</u>

The remaining performance obligations expected to be recognised in more than one year relate to the delivery of goods that is to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year.

5. COST OF SALES

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Raw materials consumed	189.6	162.5
Salaries and wages	97.6	94.2
Depreciation expense (note 15)	65.6	69.0
Consumption of laboratory items	28.7	26.6
Electricity and water	27.8	28.1
Others	8.1	12.7
	<u>417.4</u>	<u>393.1</u>
Less: cost of sales relating to discontinued operations (note 13(c))	(24.1)	(23.1)
	<u>393.3</u>	<u>370.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

6. OTHER INCOME

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
Exchange gain	1.9	4.6
Cafeteria operating income	1.3	1.6
Sale of raw materials	0.2	0.5
Other income	3.3	10.6
	6.7	17.3
Less: other income relating to discontinued operations (note 13(c))	(2.8)	(10.2)
	3.9	7.1

7. SELLING AND DISTRIBUTION EXPENSES

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
Salaries, wages and related expenditures	128.2	142.1
Sales expenses	73.0	44.9
Scrapping and provisions	46.7	52.0
Penalties on sales	25.4	22.2
Research and development expenditures	19.8	13.0
Freight charges	11.7	6.2
Advertisement and promotion	10.9	13.5
Marketing materials	9.4	10.1
Product registration	3.8	2.8
Depreciation (note 15)	3.3	2.9
Others	16.4	37.4
	348.6	347.1
Less: selling and distribution expenses relating to discontinued operations (note 13(c))	(15.8)	(27.2)
	332.8	319.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

8. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Salaries, wages and related expenditures	35.9	34.1
Legal and professional	15.4	5.8
Depreciation (note 15)	24.3	10.4
Value added tax expense	6.0	1.6
Services	5.5	4.8
Amortisation (note 16)	5.1	5.6
Utilities	5.1	3.6
Transportation and visa charges	2.5	1.8
Loss on exchange	1.6	1.5
Technical know-how	1.5	1.5
Bank charges and commission	1.5	1.1
Donation expenses (note below)	0.1	0.8
Impairment of intangible assets (note 16)	-	1.7
Others	7.8	10.7
	112.3	85.0
Less: general and administrative expenses relating to discontinued operations (note 13(c))	(3.0)	(3.2)
	109.3	81.8

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

9. FINANCE INCOME

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Interest income on fixed deposits	2.2	1.1
Less: finance income relating to discontinued operations (note 13(c))	(0.1)	(0.1)
	2.1	1.0

10. FINANCE COSTS

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Interest on bank overdraft	8.4	11.8
Interest on bank and other loans	27.7	23.4
	36.1	35.2
Less: finance cost relating to discontinued operations (note 13(c))	(1.7)	(1.3)
	34.4	33.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

11. INCOME TAX

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Current income tax		
Current year	<u>0.4</u>	<u>1.0</u>
Deferred tax		
Current year credit	<u>1.8</u>	<u>3.0</u>
Total income tax credit reported in the consolidated statement of profit or loss	<u><u>1.4</u></u>	<u><u>2.0</u></u>
Component of deferred tax are as follows:		
	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Difference in accounting and tax base of intangible assets	<u>16.4</u>	<u>17.7</u>
Deferred tax liability	<u>3.7</u>	<u>4.0</u>
Deferred tax asset mainly on account of carry forward losses of a subsidiary	<u>1.8</u>	<u>3.9</u>
Total deferred tax liabilities, net	<u><u>(1.9)</u></u>	<u><u>(0.1)</u></u>

A significant part of the Group's operations are carried out in non taxable jurisdictions and presently the Group's operations in the UAE are not subject to corporation tax. However, the Group's operations in other countries including Egypt and Kingdom of Saudi Arabia are subject to taxation at the rates applicable in the respective countries. As income tax relates only to certain overseas subsidiaries companies and at varying rates, providing information on effective tax rates is not relevant.

12. INVESTMENT IN AN ASSOCIATE

- a) The Group has 40% shareholding in Planet Pharmacies L.L.C. ("Planet") which is the distributor of the Company's products and has a wide distribution of retail and wholesale pharmacies in UAE, KSA and Oman. The Group's shares are currently pledged with a bank to obtain a banking facility (note 26).
- b) Details of the Group's investment in Planet which is accounted for using the equity method is as follows:

<i>Name of associate</i>	<i>Place of incorporation and operation</i>	<i>Percentage of ownership</i>	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Planet Pharmacies L.L.C.	UAE	40%	<u><u>270.6</u></u>	<u><u>264.5</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

12. INVESTMENTS IN AN ASSOCIATE (continued)

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

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Balance at the beginning of the year	264.5	283.7
Share of associate's consolidated profit/ (loss) for the year	6.1	(19.2)
At the end of the year	270.6	264.5

d) The following table illustrates the summarised unaudited consolidated financial information of Group's Investment in Planet based on management accounts.

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Current assets	819.4	868.9
Non-current assets	561.2	453.7
Current liabilities	(379.7)	(417.0)
Non-current liabilities	(102.9)	(26.8)
Equity	898.0	878.8
Group's share in equity- 40% (2019:40%)	359.2	351.5

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Revenue from contracts with customers	846.5	771.2
Cost of sales	(658.1)	(598.1)
Administrative expenses	(160.1)	(223.8)
Finance (cost)/income	(3.9)	2.7
Profit/ (loss) for the year	24.4	(48.0)
Group's share of profit/ (loss) for the year	6.1	(19.2)

e) Reconciliation between equity accounting and movement on investment in associate is as follows:

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
At 31 December	270.6	264.5
Unrealised profit on assets contributed towards acquisition and establishment of associate	88.6	87.0
Closing balance	359.2	351.5

f) The associate requires the Group's consent to distribute its profits. The Group does not foresee giving such consent at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

12. INVESTMENTS IN AN ASSOCIATE (continued)

- g) Based on the management accounts of the associate, Planet did not have any contingent liabilities or capital commitments related to the legal cases as at 31 December 2020 and 2019.

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

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Gulf Inject L.L.C. ("Gulf Inject"), a wholly owned subsidiary. Accordingly, Gulf Inject has been classified as a disposal group held for sale and as a discontinued operation. The sale of Gulf Inject has not been completed in the current year and is expected to be completed during the year ending 31 December 2021.

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

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

	2020	2019
	AED	AED
	millions	millions
Operating	10.2	-
Investing	(0.6)	(1.7)
Financing	(7.4)	(0.4)
Net cash inflow/ (outflow)	2.2	(2.1)

Basic and diluted loss per share

Basic and diluted loss per share is disclosed in note 14.

b) Julphar Bangladesh Limited

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell Julphar Bangladesh Limited ("Julphar Bangladesh"). The Company owns 50.5% of Julphar Bangladesh. Accordingly, Julphar Bangladesh has been classified as a disposal group held for sale and as a discontinued operation. During the year ended 31 December 2020, the Group entered into a Sale and Purchase Agreement. The legal formalities relating to the disposal of Julphar Bangladesh have not yet been fulfilled and the sale of Julphar Bangladesh is expected to be completed by end of March 2021.

With Julphar Bangladesh being classified as a discontinued operation, the results of Julphar Bangladesh has not been presented in the segment information (note 31). The comparative consolidated statement of comprehensive income of the Group has been represented to show the discontinued operation of Julphar Bangladesh separately from continuing operations.

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

	2020	2019
	AED	AED
	millions	millions
Operating	2.5	(1.3)
Investing	(0.7)	(1.6)
Financing	(1.7)	2.9
Net cash inflow	0.1	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

13. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)**b) Julphar Bangladesh Limited (continued)****Measurement of fair value**

As at 31 December 2020, the non-recurring fair value measurement for the disposal group of AED 27.6 million (2019: AED 33.0 million) (before costs to sell) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (note 33).

Basic and diluted loss per share

Basic and diluted loss per share is disclosed in note 14.

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

	2020			2019		
	<i>Gulf Inject LLC AED millions</i>	<i>Julphar Bangladesh Limited AED millions</i>	<i>Total AED millions</i>	<i>Gulf Inject LLC AED millions</i>	<i>Julphar Bangladesh Limited AED millions</i>	<i>Total AED millions</i>
Revenue from contracts with customers	26.5	13.4	39.9	13.2	26.8	40.0
Cost of sales	(16.6)	(7.5)	(24.1)	(12.2)	(10.9)	(23.1)
GROSS PROFIT	9.9	5.9	15.8	1.0	15.9	16.9
Other income	0.4	2.4	2.8	7.9	2.3	10.2
Selling and distribution expenses	(1.9)	(13.9)	(15.8)	(3.7)	(23.5)	(27.2)
General and administrative expenses	(3.0)	-	(3.0)	(3.2)	-	(3.2)
Impairment of financial asset	(0.3)	-	(0.3)	-	-	-
OPERATING PROFIT/ (LOSS)	5.1	(5.6)	(0.5)	2.0	(5.3)	(3.3)
Finance income	0.1	-	0.1	0.1	-	0.1
Finance costs	-	(1.7)	(1.7)	-	(1.3)	(1.3)
Impairment loss recognized on the remeasurement to fair value less cost to sell	-	(0.5)	(0.5)	-	(4.4)	(4.4)
PROFIT/ (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	5.2	(7.8)	(2.6)	2.1	(11.0)	(8.9)
Attributable to:						
Equity holders of the Parent	5.2	(3.9)	1.3	2.1	(5.6)	(3.5)
Non-controlling interests	-	(3.9)	(3.9)	-	(5.4)	(5.4)
	5.2	(7.8)	(2.6)	2.1	(11.0)	(8.9)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

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

- d) The major classes of assets and liabilities of the disposal group classified as held for sale as at 31 December 2020 are as follows:

	2020			2019		
	<i>Gulf Inject LLC AED millions</i>	<i>Julphar Bangladesh Limited AED millions</i>	<i>Total AED millions</i>	<i>Gulf Inject LLC AED millions</i>	<i>Julphar Bangladesh Limited AED millions</i>	<i>Total AED millions</i>
ASSETS						
Property, plant and equipment	23.2	33.9	57.1	24.7	35.6	60.3
Intangible assets	-	8.7	8.7	-	10.1	10.1
Inventories	5.9	4.0	9.9	4.5	5.2	9.7
Trade and other receivables	15.6	8.6	24.2	19.8	4.4	24.2
Bank balances and cash	2.4	0.9	3.3	0.4	0.2	0.6
Assets held for sale	47.1	56.1	103.2	49.4	55.5	104.9
LIABILITIES						
Provision for employees' end of service benefits	0.6	2.3	2.9	0.4	3.4	3.8
Bank borrowings	-	22.8	22.8	-	11.4	11.4
Trade payables and accruals	4.6	6.7	11.3	5.4	7.7	13.1
Liabilities directly associated with assets held for sale	5.2	31.8	37.0	5.8	22.5	28.3
Net assets directly associated with assets held for sale	41.9	24.3	66.2	43.6	33.0	76.6
Less: net assets attributable to non-controlling interests	-	(12.0)	(12.0)	-	(16.3)	(16.3)
Group's share of net assets directly associated with disposal group	41.9	12.3	54.2	43.6	16.7	60.3

Write-down of intangible asset

During 2019, immediately before the classification of Julphar Bangladesh Limited as a discontinued operation, the recoverable amount was estimated for intangible asset and no impairment loss was identified. Following the classification, a write-down of AED 4.4 million was recognised related to intangible asset to reduce the carrying amount of the net assets to their fair value less costs to sell amounting AED 33.0 million. This was recognised in discontinued operations in the consolidated statement of profit or loss.

During the year ended 31 December 2020, an impairment loss of AED 0.5 million was recognised resulting in the disposal group being carried at its carrying amount which is lower than the fair value less cost to sell of AED 27.6 million. Fair value measurement disclosures are provided in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

14. BASIC LOSS PER SHARE (EPS)

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

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Loss for the year attributable to the equity holders of the Parent:		
Continuing operations	(294.5)	(499.7)
Discontinued operations (note 13(c))	1.3	(3.5)
Loss for the year attributable to the equity holders of the Parent	(293.2)	(503.2)
Weighted average number of shares (note (d))	1,057.9	1,158.5
	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Basic loss per share attributable to the equity holders of the Parent (in UAE fils)	(27.7)	(43.4)
Basic loss per share from continuing operations attributable to the equity holders of the Parent (in UAE fils)	(27.8)	(43.1)

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

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Profit/ (loss) for the year attributable to the equity holders of the Parent from discontinued operations (note 13(c))	1.3	(3.5)
Basic profit/ (loss) per share from discontinued operations attributable to the equity holders of the Parent (in UAE fils)	0.1	(0.3)

- c) The Group does not have any potential equity shares and accordingly the basic and diluted earnings per share is the same.
- d) The weighted average number of shares takes into account the weighted average effect of changes in ordinary shares during the year (note 21 (a) and (b)).

Gulf Pharmaceutical Industries P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

15. PROPERTY PLANT AND EQUIPMENT

	<i>Land AED millions</i>	<i>Buildings AED millions</i>	<i>Plant and machinery AED millions</i>	<i>Installations AED millions</i>	<i>Motor vehicles AED millions</i>	<i>Furniture and fixtures AED millions</i>	<i>Tools and equipment AED millions</i>	<i>Leasehold improvements AED millions</i>	<i>Capital - work-in progress AED millions</i>	<i>Total AED millions</i>
Cost										
At 1 January 2019	63.7	542.7	1,073.9	125.6	33.1	17.1	29.4	10.3	189.6	2,085.4
Additions	-	0.4	11.2	3.1	-	0.7	0.8	-	18.5	34.7
Transfer from CWIP	-	105.8	99.5	0.4	-	2.4	-	-	(208.1)	-
Disposals	-	-	-	-	(0.6)	-	(0.2)	-	-	(0.8)
Reclassified to assets held for sale (note 13(d))	(19.4)	(23.9)	(35.1)	(0.2)	(1.6)	(2.0)	(10.0)	(1.0)	-	(93.2)
Exchange differences	-	(1.1)	(1.8)	-	-	(1.0)	(0.1)	-	-	(4.0)
At 31 December 2019	44.3	623.9	1,147.7	128.9	30.9	17.2	19.9	9.3	-	2,022.1
Additions	-	0.2	5.8	0.8	0.5	0.1	0.9	-	7.8	16.1
Transfer from CWIP	-	-	2.6	1.4	-	-	-	-	(4.0)	-
Disposals	-	-	-	-	(0.7)	-	-	-	-	(0.7)
Exchange differences	(0.4)	(0.2)	0.3	-	-	(0.1)	-	-	-	(0.4)
At 31 December 2020	43.9	623.9	1,156.4	131.1	30.7	17.2	20.8	9.3	3.8	2,037.1
Depreciation and impairment										
At 1 January 2019	-	218.3	568.2	106.8	31.8	17.1	8.7	8.1	-	959.0
Charge for the year (note (c))	-	19.3	53.3	5.6	0.6	0.3	3.0	0.2	-	82.3
Disposals	-	-	-	-	(0.5)	-	(0.2)	-	-	(0.7)
Reclassified to assets held for sale (note 13(d))	-	(6.0)	(14.3)	(0.1)	(1.0)	(1.3)	(10.2)	(0.2)	-	(33.1)
Exchange differences	-	-	0.5	-	-	-	(0.7)	-	-	(0.2)
At 31 December 2019	-	231.6	607.7	112.3	30.9	16.1	0.6	8.1	-	1,007.3
Charge for the year (note (c))	-	26.4	57.7	5.2	0.5	0.6	2.3	0.5	-	93.2
Impairment for the year (note (f))	-	-	37.7	-	-	-	-	-	-	37.7
Disposals	-	-	-	-	(0.7)	-	-	-	-	(0.7)
Exchange differences	-	-	(1.6)	-	(0.1)	-	-	-	-	(1.7)
At 31 December 2020	-	258.0	701.5	117.5	30.6	16.7	2.9	8.6	-	1,135.8
Net book value:										
At 31 December 2020	43.9	365.9	454.9	13.6	0.1	0.5	17.9	0.7	3.8	901.3
At 31 December 2019	44.3	392.3	540.0	16.6	-	1.1	19.3	1.2	-	1,014.8

15. PROPERTY PLANT AND EQUIPMENT (continued)

- a) Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 26).
- b) In February 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 property and equipment amounting to AED 0.1 million. Inventories stored in the warehouse of the subsidiary amounting to AED 2.6 million were damaged as the pharmaceutical drugs were not maintained at the prescribed temperatures due to interrupted power supply during the incident. The subsidiary has assessed that total loss from damage of equipment and inventory and disruption of its business to be approximately AED 7.5 million and has made an insurance claim against this damage. The subsidiary received a claim of AED 7.5 million from the insurance company on 30 December 2019 and recorded other income of AED 7.5 million. This was recognised in discontinued operations in the consolidated statement of profit or loss.
- c) The above depreciation charge has been allocated in the consolidated statement of income as follows:

	<i>2020</i>	<i>2019</i>
	<i>AED</i>	<i>AED</i>
	<i>millions</i>	<i>millions</i>
Cost of sales (note 5)	65.6	69.0
General and administrative expenses (note 8)	24.3	10.4
Selling and distribution expenses (note 7)	3.3	2.9
	93.2	82.3

- d) The factory and its related buildings of the Parent Company are constructed on plots of land amounting to AED 3.6 million (2019: AED 3.6 million) which are owned by the Government of Ras Al Khaimah.
- e) The factory of the Group's subsidiary in KSA is built on a piece of land amounting to AED 15.4 million (2019: AED 15.4 million) which is registered in the name of a minority shareholder.
- f) During the year, an impairment loss of AED 37.7 million has been recognised against property, plant and equipment, to adjust the carrying value to its recoverable amount as a result of accumulated reported net losses and utilization of assets below the capacity. This is recognised in the consolidated statement of profit or loss as 'impairment of property, plant and equipment'. The recoverable amount as at 31 December 2020 amounting to AED 281.0 million was based on fair value less cost of disposal determined using cost approach (i.e. depreciated replacement cost method) for certain property, plant and equipment. The valuation has been performed by an accredited independent valuer and are based on the replacement cost less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear and obsolescence.
- g) **Impairment testing of a CGU**
For this purpose, management used the cash flow projections of the business unit based on the financial budgets duly approved by the Board of Directors covering a period of five years. The discount rate applied to the cash flow projections during the year is 15.5% (2019: 11.7%). The expected growth rate in revenue over the next 5 years is 5% to 34% per annum (2019: 5% to 6% per annum). The terminal growth budgeted beyond 5 years is 2%.

Key assumptions used in the value in use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of property, plant and equipment.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the past two years before the budgeted year, increased for expected efficiency improvements. The budgeted gross margin amounted to 46% (2019: 45%).

Discount rate – The discount rate for the year calculated to reflect both the time value of money and the risks specific to the assets, estimated from market data was 15.5% (2019: 11.7%).

Sensitivity to changes in assumptions

Management believes that any reasonably possible changes in key assumptions used to determine the recoverable amount segments will not result in any impairment of property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

16. INTANGIBLE ASSETS

	<i>Licenses and permits AED millions</i>	<i>Developed products AED millions</i>	<i>Others AED millions</i>	<i>Total AED millions</i>
Cost				
At 1 January 2019	35.1	19.6	7.7	62.4
Reclassified to assets held for sale (note 13(d))	-	(19.6)	-	(19.6)
Foreign currency translation	(1.7)	-	-	(1.7)
At 31 December 2019 and 2020	33.4	-	7.7	41.1
Accumulated amortisation				
At 1 January 2019	11.2	4.0	3.6	18.8
Charge for the year (note 8)	2.8	1.1	1.7	5.6
Impairment (note 8)	1.7	-	-	1.7
Reclassified to assets held for sale (note 13(d))	-	(5.1)	-	(5.1)
At 31 December 2019	15.7	-	5.3	21.0
Charge for the year (note 8)	2.8	-	2.3	5.1
At 31 December 2020	18.5	-	7.6	26.1
Net book value				
At 31 December 2020	14.9	-	0.1	15.0
At 31 December 2019	17.7	-	2.4	20.1

In 2019, the impairment loss of AED 1.7 million represented the write-down of certain license and permits relating the Group's subsidiary in Egypt. This was recognised in the consolidated statement of profit or loss as general and administrative expenses (note 8). The recoverable amount of AED 17.7 million as at 31 December 2019 was based on value in use and was determined at the level of the CGU. The CGU consisted of the Group's Egyptian subsidiary assets. In determining value in use for the CGU, the cash flows were discounted at a rate of 24% on a pre-tax basis.

17. INVENTORIES

	<i>2020 AED millions</i>	<i>2019 AED millions</i>
Raw materials (note (b))	127.8	141.9
Packing materials (note (b))	47.4	45.4
Work-in-progress	18.6	12.3
Finished goods	97.8	70.4
Goods in transit	15.8	2.5
Consumables	18.5	17.7
Spare parts	34.3	31.1
	360.2	321.3
Less: allowance for slow moving inventories (note (a))	(56.0)	(18.0)
	304.2	303.3
Less: inventories attributable to assets held for sale (note 13(d))	(9.9)	(9.7)
	294.3	293.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

17. INVENTORIES (continued)

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

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
At 1 January	18.0	9.5
Charge during the year	46.4	39.1
Written-off during the year	(8.4)	(30.6)
At 31 December	<u>56.0</u>	<u>18.0</u>

b) Includes raw materials and packing materials amounting to AED 9.2 million (2019: AED 26.3 million) held by a third party.

c) The cost of inventories recognised as an expense and included under cost of sales amounted to AED 189.6 million (2019: AED 162.5 million) (note 5).

18. 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 non-listed equity securities and include the following:

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
In UAE markets	19.6	22.0
In other GCC markets	0.1	0.1
	<u>19.7</u>	<u>22.1</u>

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

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
At 1 January	22.1	21.3
Disposals during the year	(0.1)	-
Net (loss)/ gain on revaluation	(2.3)	0.8
	<u>19.7</u>	<u>22.1</u>

As at 31 December 2020 and 2019, investments of AED 19.7 million and AED 22.1 million, includes AED 19.5 million in relation to an investment in unquoted equity security of an entity which is engaged in manufacturing of packing materials. The Group has 7.25% equity investment in the entity. Management has performed a valuation and recorded the investment at fair value. Fair value less costs of disposal has been computed using discounted cashflows technique. 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 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

19. TRADE AND OTHER RECEIVABLES

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
Trade receivables	851.0	792.7
Less: allowance for expected credit losses (note (d))	(417.8)	(415.9)
	433.2	376.8
Due from a related party (note 29(a))	174.2	266.6
Advances to suppliers	23.4	17.4
Value added tax receivable	17.1	11.0
Other receivables	24.0	20.2
	671.9	692.0
Less: trade and other receivables attributable to assets held for sale (note 13(d))	(24.2)	(24.2)
	647.7	667.8

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

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
At 1 January	415.9	419.6
Charge for the year	1.9	-
Reversal of allowances on subsequent collection	-	(3.7)
At end of the year	417.8	415.9

b) During 2018, the Saudi Food and Drug Authority (SFDA) imposed a temporary suspension to export the Parent Company's products to the Kingdom of Saudi Arabia (KSA). The Company deals with an exclusive distributor in KSA and therefore all products sold in KSA are exported to that distributor. As a consequence of this ban, the trading activities between the Parent Company and its Saudi distributor had diminished significantly. Furthermore, the respective receivable ageing had deteriorated and therefore, in 2018 management booked a provision amounting to AED 287.1 million related to receivable balances outstanding from this distributor. The net un-provided amount as at 31 December 2020 is AED 249.2 million (2019: AED 218.4 million) against which the parent Company has a corresponding liability to the same Saudi distributor in the form of goods amounting to AED 192.0 million (2019: AED 192.0 million), recorded within deferred revenue and the remaining balance is expected to be recoverable by the management. During the year ended 31 December 2020, the temporary suspension on the Parent Company's products in KSA was lifted, however presently the Parent Company is negotiating with the distributor on a mechanism to settle the outstanding balance and believes that the existing provision should be maintained in the consolidated financial statements until a settlement is reached with the distributor.

c) Information regarding trade receivable is given credit risk (note 32).

d) A provision has been made for the estimated impairment amounts of trade receivables of AED 417.8 million (2019: AED 415.9 million). This provision has been determined based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

19. TRADE AND OTHER RECEIVABLES (continued)

- e) For amount due from a related party, an impairment provision has been assessed on the basis of historical default rate adjusted with forward looking factor. Based on the outstanding amount, history of default and subsequent collection, there is no impact of expected credit loss.
- f) For the remaining receivables, the provision has been booked on the basis of expected credit loss model. Information about the Group's financial assets subject to IFRS 9's expected credit loss model and the Group's impairment methodology can be found in note 3.7.
- g) The ageing analysis of trade receivables is as follows:

	2020 AED millions	2019 AED millions
0 – 180 days	247.7	155.1
181 – 365 days	10.8	1.9
More than 365 days	592.5	635.7
	851.0	792.7

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

20. CASH AND CASH EQUIVALENTS

	2020 AED millions	2019 AED millions
Bank balances:		
Current accounts	75.9	56.9
Short term bank deposits	-	0.4
	75.9	57.3
Cash in hand	1.1	2.1
	77.0	59.4
Less: cash and bank balances attributable to assets held for sale (note 13(d))	(3.3)	(0.6)
Cash and bank balances	73.7	58.8

The short-term bank deposits maturity dates range from one to three-month from the placement dates and carry interest at commercial rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

21. SHARE CAPITAL

	2020	2019
	AED	AED
	millions	millions
<i>Authorised, issued and fully paid</i>		
1,155,227,811 ordinary shares (2019:1,158,502,800 ordinary shares at par value of AED 1	1,155.3	1,158.5

- a) The Company's Board of Directors in its meeting held on 16 January 2020, decided to restructure the capital base of the Company by reducing the issued share capital by extinguishing the accumulated losses as at 31 December 2019 of AED 503.2 million. Accordingly, the capital reduction was approved in the Annual General Meeting by the shareholders on 9 April 2020. During the year ended 31 December 2020, the decrease in capital was approved by the relevant authorities and regulators and registered with the relevant authorities and hence the capital reduced to AED 655.3 million, before the increase in capital detailed in note (b) below.
- b) The Company's Board of Directors in its meeting held on 16 January 2020, after the capital reduction also decided to increase capital of the Company by up to AED 500 million through right issue. Accordingly, the capital increase was also approved in the Annual General Meeting by the shareholders on 9 April 2020. During the year ended 31 December 2020, AED 500 million were raised to increase the share capital through a public right issue offering that happened between 29 June 2020 to 12 July 2020, representing at AED 1 per share. The transaction was completed on 28 July 2020 and the new share capital has reached AED 1,155.3 million.

22. STATUTORY RESERVE

In accordance with United Arab Emirates Federal Commercial Companies Law No. 2 of 2015, the Parent Company has established a statutory reserve by appropriation of 10% of profit for each year plus last year. The statutory reserve only includes the parent Company as the other subsidiaries do not require a statutory reserve. As the Company has incurred loss during the year, therefore, no additional appropriation has been made in the statutory reserve. This reserve is not available for distribution except in the circumstances stipulated by the law.

The shareholders of the Parent Company in the annual general meeting held on 1 July 2019 resolved to utilise the reserve to offset the accumulated losses of the Group subject to the approval from Securities and Commodities Authority. During the year ended 31 December 2019, the Securities and Commodities Authority approved the utilisation of the reserve against the accumulated losses of the Group up to 31 December 2018. Accordingly, the Group transferred part of the statutory reserve amounting to AED 376.9 million to accumulated losses to offset the Group's remaining accumulated losses as of 31 December 2018.

23. VOLUNTARY RESERVE

Appropriations to the voluntary reserve account represents appropriation of the profit for each year as and when required. The shareholders of the Parent Company in the annual general meeting held on 1 July 2019 resolved to utilise the reserve to offset the accumulated losses of the Group subject to the approval from Securities and Commodities Authority. During the year ended 31 December 2019, the Securities and Commodities Authority approved the utilisation of the reserve against the accumulated losses of the Group as at 31 December 2018. Accordingly, the Group transferred the full amount of voluntary reserve to accumulated losses to offset the Group's losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

24. NON-CONTROLLING INTERESTS

	2020 AED millions	2019 AED millions
Non-controlling interests	168.8	179.4

During the year ended 31 December 2020, the minority party in one of the Group's subsidiary in KSA has injected capital amounting to AED 13.6 million (2019: AED 20.5 million).

25. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

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

	2020 AED millions	2019 AED millions
At 1 January	62.9	69.2
Provided during the year	11.3	7.3
Paid during the year	(11.9)	(13.6)
At 31 December	62.3	62.9
Less: employees' end of service benefits attributable to liability directly associated with assets held for sale (note 13(d))	(2.9)	(3.8)
	59.4	59.1

26. BANK AND OTHER BORROWINGS

	<i>Interest rate(%)</i>	<i>Maturity</i>	2020 AED millions	2019 AED millions
Current interest bearing loans and borrowings				
Bank overdraft	3m EIBOR+2.5%	On demand	156.8	271.1
Bank & other loans (note (a))				
AED 300 million loan	3m EIBOR+2.75%	31 May 2026	70.8	50.0
AED 150 million loan	1m EIBOR+2.5%	31 December 2021	137.7	153.0
AED 50 million loan (note below)	3m EIBOR+1.65%	28 April 2021	15.8	15.8
EUR 4.5 million	3m EIBOR+1.25%	31 March 2020	-	12.9
AED 150 million loan (note 29)	3m EIBOR+3.5%	31 December 2020	-	150.0
SAR 10 million loan	SIBOR+2%	16 February 2021	9.8	-
Total current interest bearing loans and borrowings			390.9	652.8
Non-current interest bearing loans and borrowings				
Bank & other loans (note (a))				
AED 300 million loan	3m EIBOR+2.75%	31 May 2026	220.9	250.0
Total interest bearing loans and borrowings			611.8	902.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

26. BANK AND OTHER BORROWINGS (continued)

a) The bank & other loans comprise of

	2020 AED millions	2019 AED millions
Ijara Loans (note b(i))	137.7	153.0
Other Loans (note b(ii))	317.3	478.7
	455.0	631.7

The principal features of the bank borrowings are as follows:

b) Ijara Loan

i) The Group has taken Ijara loans for general corporate borrowing purposes. Loans are secured against the assets financed and are repayable in periodic instalments. The Company has pledged certain assets (approximately equivalent to Ijara Loan amount) against the loan.

Significant security terms are as follows:

- Negative pledge over certain assets.
- Assignment of receivables for at least AED 152 million equivalent and undertaking to route them annually through Obligor's collection account with the Bank.
- Assignment of insurance policy over certain assets.

ii) 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 317.3 million (2019: AED 478.7 million). Interest on these loans is calculated on a monthly/quarterly basis. The loan balances are paid in monthly/quarterly instalments, over periods ranging from one month to five years, until full settlement, with the exception of related party loan that was repaid at the end of its term as bullet payment.

c) The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 137.7 million.
2. Pledge of the Group's shares in its associate (note 12).
3. Maintenance of certain financial ratios as agreed with the respective banks.
4. Negative pledge over certain assets

d) Some of the Group's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios/ covenants.

e) During the year ended 31 December 2019, the Group obtained a loan facility from a shareholder amounting to AED 150 million and an additional loan of AED 150 million during the year ended 31 December 2020. The loan was secured through pledge of moveable assets of the Parent Company and carried interest at EIBOR+3.5%. No bank guarantees were received from/provided to related parties against balances due from/to them. During the year ended 31 December 2020, the loan has been fully repaid.

f) The Group obtained a new loan facility on 31 January 2019 from a bank amounting to AED 300 million to pre-settle the existing loan amounting to AED 100 million and to partially settle other loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

26. BANK & OTHER BORROWINGS (continued)

g) During the year ended 31 December 2020, the loans with the outstanding balance of AED 445.2 million have been restructured by the banks to postpone the repayment of principal. These restructurings did not meet the criteria of modifications of financial liabilities, hence no impact has been taken to the consolidated financial statements.

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

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
AED	602.0	889.7
SAR	9.8	-
Euro	-	13.1
	611.8	902.8

i) Bank overdraft:

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

j) Movement in borrowings is as follows

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
At 1 January	902.8	801.8
Loans repaid during the year	(450.5)	(359.9)
New drawdowns	160.0	462.0
Exchange loss	(0.5)	(1.1)
At 31 December	611.8	902.8

27. TRADE PAYABLES AND ACCRUALS

	2020 AED <i>millions</i>	2019 AED <i>millions</i>
Accounts payable	100.5	109.9
Refund liabilities (note 34)	128.3	85.5
Commissions payable (note 4)	35.4	52.5
Advances from customers (note 4)	31.0	5.6
Rebate and accruals	17.4	7.9
Unclaimed dividend	16.6	17.7
Leave salary and air passage	14.8	16.5
Accrued expenses	9.2	11.5
Due to a related party (note 29(b))	2.2	3.5
Others	17.2	25.0
	372.6	335.6
Less: trade payables and accruals attributable to liability directly associated to assets held for sale (note 13(d))	(34.1)	(24.5)
	338.5	311.1

28. DEFERRED REVENUE

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

Under IFRS 15, the bonus goods distributions are considered as a separate performance obligation and revenue is deferred to the extent the bonus goods obligation is considered outstanding. The obligation of bonus goods is estimated at the time of sale based on available information and historical experience. As a consequence, the net amount of revenue deferred as at 31 December 2020 was AED 207.0 million (2019: AED 267.2 million) which will be realised in the consolidated statement of profit or loss upon fulfilment of bonus goods obligations to the customers.

29. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise the Company's majority shareholders, key management personnel, subsidiaries, associates, directors, Government of Ras Al Khaimah and other businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Pricing policies and terms of these transactions are approved by the Group's management, or its Board of Directors.

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

a) Due from a related party

	2020	2019
	AED	AED
	millions	millions
Planet Pharmacies L.L.C. (Associate) (note 19)	174.2	266.6

b) Due to a related party

	2020	2019
	AED	AED
	millions	millions
Majan Printing and Packaging Company L.L.C. (note 27)	2.2	3.5
Loan from a shareholder	-	150.0

Terms and conditions with related parties

For amount due from a related party, an impairment provision has been assessed on the basis of historical default rate adjusted with forward looking factor. Based on the outstanding amount, history of default and subsequent collection, the impact of expected credit loss is immaterial and hence no provision has been booked in respect of this receivable balance. No bank guarantees are provided to/taken from related parties against balances due to/from them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

29. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**c) 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:

	2020 AED millions	2019 AED millions
Sales to associate	102.5	20.9
Purchases from affiliates	5.8	4.5
Repayment of shareholder loan including finance cost (note 26)	308.0	-
Loan obtained from a shareholder	150.0	150.0

d) Compensation of key management personnel of the Group

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

	2020 AED millions	2019 AED millions
Short-term benefits	7.5	4.7
Employees' end of service benefits	-	0.1
Board of Directors' remuneration	-	-
	7.5	4.8

30. COMMITMENTS AND CONTINGENT LIABILITIES

	2020 AED millions	2019 AED millions
Capital Commitments	16.2	13.2
Letters of Credit	41.3	2.2
Letters of guarantee	46.1	48.5

31. 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 consolidated financial statements.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

31. SEGMENT INFORMATION (continued)

	2020				2019			
	<i>Manufacturing AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>	<i>Manufacturing AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>
Segment revenue	581.2	-	-	581.2	301.5	-	-	301.5
Segment result	(280.5)	(2.0)	(32.3)	(314.8)	(480.3)	3.2	(32.9)	(510.0)
Depreciation expense	93.2	-	-	93.2	82.3	-	-	82.3
Impairment of property, plant and equipment	37.7	-	-	37.7	-	-	-	-
Share of associate's profit	-	6.1	-	6.1	-	(19.2)	-	(19.2)
	2020				2019			
	<i>Manufacturing AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>	<i>Manufacturing AED millions</i>	<i>Investments AED millions</i>	<i>Other segments AED millions</i>	<i>Total AED millions</i>
Segment assets	1,860.0	290.3	73.7	2,224.0	2,000.2	286.6	58.8	2,345.6
Segment liabilities	608.5	-	611.8	1,220.3	641.4	-	902.8	1,544.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

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

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

	2020				
	Total AED millions	UAE AED millions	Saudi Arabia AED millions	Egypt AED millions	Others AED millions
Non-current assets					
Property, plant and equipment	901.3	637.4	258.4	1.0	4.5
Intangible assets	15.0	0.7	-	14.3	-
Revenue	581.2	91.2	87.3	77.0	325.7
	2019				
	Total AED millions	UAE AED millions	Saudi Arabia AED millions	Egypt AED millions	Others AED millions
Non-current assets					
Property, plant and equipment	1,014.8	761.8	247.0	0.1	5.9
Intangible assets	20.1	3.3	-	16.8	-
Revenue	301.5	9.1	1.2	42.3	248.9

The Group's sales to top 5 customers individually are more than 10% of the total external sales. Total amount of sales for the year ended 31 December 2020 to these customers amounts to AED 439.4 million (2019: Top 3 customers AED 113.3 million). These revenues are included under manufacturing segment. There are no other non-current assets included in "Others" which are more than 10% of the total segment non-current assets. Sales in "Others" include Iraq (AED 108.7 million) and Lebanon (AED 74.9 million) which are more than 10% of the total sales.

32. RISK MANAGEMENT

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

Market risk

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

The sensitivity analysis in the following sections relate to the position as at 31 December in 2020 and 2019.

The sensitivity of the relevant consolidated statement of profit or loss item or equity is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

32. RISK MANAGEMENT (continued)**Market risk (continued)**

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

a) Interest rate risk

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

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

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial asset held at 31 December 2020. The effect of a decrease in interest rates is expected to be equal and opposite to the effect of the increases as shown below:

	<i>Bank and other borrowings AED millions</i>	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year AED millions</i>
2020	611.8	+50	(3.1)
		-50	3.1
2019	902.8	+50	(4.5)
		-50	4.5

b) Foreign currency risk

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

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

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

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

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

	<i>Balance receivable/ (payable)</i>	<i>Increase in exchange rate to the AED</i>	<i>Effect on profit AED m</i>
2020			
Euro	(2.9)	+5%	(0.1)
		-5%	0.1
CHF	(1.9)	+5%	(0.1)
		-5%	0.1
2019			
Euro	(12.0)	+5%	(0.6)
		-5%	0.6
EGP	49.5	+5%	1.9
		-5%	(1.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

32. RISK MANAGEMENT (continued)**Market risk (continued)****c) Price risk**

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. However the Group is not exposed to price risk since the total value of the Group's investment in listed equity securities is immaterial to the overall consolidated financial statements.

Credit risk

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

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 90 -180 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies is disclosed in note 3.7.

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

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

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

	2020		
	<i>Gross value AED millions</i>	<i>Allowance for expected credit losses AED millions</i>	<i>Expected credit loss (ECL)</i>
Trade receivables with general provision	615.7	8.3	1.3%
Specific provision for receivables	409.5	409.5	100%
	<u>1,025.2</u>	<u>417.8</u>	
		2019	
	<i>Gross value AED millions</i>	<i>Allowance for expected credit losses AED millions</i>	<i>Expected credit loss (ECL)</i>
Trade receivables with general provision	639.3	2.8	0.4%
Specific provision for receivables	413.1	413.1	100%
	<u>1,052.4</u>	<u>415.9</u>	

32. RISK MANAGEMENT (continued)**Credit risk (continued)***Financial instruments and cash deposit*

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

Due from related parties and other receivables

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

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

Excessive risk concentration

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

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

Liquidity risk

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

2020

	<i>Less than 1 year AED millions</i>	<i>1 to 5 years AED millions</i>	<i>Total AED millions</i>
Trade accounts payable	147.0	-	147.0
Bank borrowings	390.9	220.9	611.8
	<u>537.9</u>	<u>220.9</u>	<u>758.8</u>

2019

	<i>Less than 1 year AED millions</i>	<i>1 to 5 years AED millions</i>	<i>Total AED millions</i>
Trade accounts payable	328.6	-	328.6
Bank borrowings	690.3	262.5	952.8
	<u>1,018.9</u>	<u>262.5</u>	<u>1,281.40</u>

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

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. The Group's policy is to keep the gearing ratio between 40% and 50 %.

The gearing ratio at the year end was as follows:

	<i>2020</i> <i>AED</i> <i>millions</i>	<i>2019</i> <i>AED</i> <i>millions</i>
Bank borrowings	611.8	902.8
Less: cash and cash equivalents	(73.7)	(58.8)
Net debt	538.1	844.0
Total equity	1,069.9	878.0
Net debt to equity ratio (times)	0.5	1.0

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

33. FAIR VALUE MEASUREMENTS

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

Fair value of financial instruments carried at amortised cost

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

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the annual consolidated financial statements for the year ended 31 December 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

33. FAIR VALUE MEASUREMENTS (continued)

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>2020 AED millions</i>	<i>2019 AED millions</i>			
Unquoted equity investments	19.5	19.5	Level 3	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)	<ul style="list-style-type: none"> • Discount rate • Growth rate • Discount for lack of marketability
Quoted equity investments	0.2	2.6	Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities	None
	19.7	22.1			

Fair value of a disposal group held for sale are measured at fair value less cost to sell

Disposal group held for sale is measured at fair value at the end of the reporting period. The following table gives information about how the fair value of the disposal group is determined:

<i>Disposal Group</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>2020 AED million</i>	<i>2019 AED million</i>			
Julphar Bangladesh Limited	27.6	33.0	Level 3	Value based on the binding sales offer	N/A

Fair value hierarchy

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

34. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	<i>1 January 2020 AED millions</i>	<i>Cash inflows AED millions</i>	<i>Cash outflows AED millions</i>	<i>Other changes AED millions</i>	<i>31 December 2020 AED millions</i>
Bank borrowings	631.7	160.0	(336.2)	(0.5)	455.0
Bank overdraft	271.1	-	(114.3)	-	156.8
	902.8	160.0	(450.5)	(0.5)	611.8
	<i>1 January 2019 AED</i>	<i>Cash inflows AED</i>	<i>Cash outflows AED</i>	<i>Other changes AED</i>	<i>31 December 2019 AED</i>
Bank borrowings	542.6	450.1	(359.9)	(1.1)	631.7
Bank overdraft	259.2	11.9	-	-	271.1
	801.8	462.0	(359.9)	(1.1)	902.8

35. MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Portion of equity interest held by non-controlling interests:

<i>Name</i>	<i>Place of incorporation and operation</i>	<i>2020 Percentage of ownership</i>	<i>2019 Percentage of ownership</i>
Julphar Pharmaceuticals PLC	Ethiopia	55%	55%
Alpha Pharma L.L.C.	Saudi Arabia	51%	51%
		<i>2020 AED millions</i>	<i>2019 AED millions</i>

Accumulated balances of material non-controlling interests:

Julphar Pharmaceuticals PLC	8.1	10.4
Alpha Pharma L.L.C.	126.2	137.2

Profit / (loss) allocated to material non-controlling interests:

Julphar Pharmaceuticals PLC	0.5	1.1
Alpha Pharma L.L.C.	(21.6)	(11.6)

35. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

	2020		2019	
	<i>Julphar Pharmaceuticals PLC AED millions</i>	<i>Julphar Saudi Arabia AED millions</i>	<i>Julphar Pharmaceuticals PLC AED millions</i>	<i>Julphar Saudi Arabia AED millions</i>
Summarised statement of cash flow				
Operating	0.4	(34.9)	7.6	(30.4)
Investing	(0.4)	(4.0)	(0.4)	(26.1)
Financing	(0.4)	39.3	(0.7)	55.1

36. IMPACT OF COVID-19

On 11 March 2020, the World Health Organization made an assessment that the outbreak of a coronavirus (COVID-19) can be characterized as a pandemic. In addition, oil prices significantly dropped during January to March 2020 due to the effect of COVID-19 and a number of other political and economic factors. These factors have negatively affected the economies and the businesses of the regions where the Group operates. To alleviate the negative impact of the COVID-19 pandemic, various governments including the UAE Government, other independent jurisdictions and regulators have taken measures and issued directives to support businesses at large, including extensions of deadlines, facilitating continued business through social-distancing and easing pressure on credit and liquidity. These conditions impacted the economic and risk environment in which the Group operates.

In light of the rapidly escalating situation, the Group has considered whether any adjustments and changes in judgments, estimates and assumptions, as disclosed in note 3.7, and its financial risk management, as disclosed in note 32, are required to be considered and reported in the consolidated financial statements. The Group concluded that as of the date of authorisation of these consolidated financial statements all the relevant impacts have been appropriately recorded in the financial statements and no additional changes are required to the judgements and key estimates.

Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing a material adjustment to the consolidated financial statements:

a) Impairment of non-financial assets

The Group has performed a qualitative assessment for its investment in CGUs, and compared the actual results for the year ended 31 December 2020 against the budget and industry benchmarks and has recorded an impairment loss amounting to AED 37.7 million for the year (note 15(f)).

b) Expected Credit Losses (“ECL”) and impairment of financial assets

The uncertainties caused by COVID-19 have required the Group to reassess the inputs and assumptions used for the determination of expected credit losses (“ECLs”) as at 31 December 2020. The Group has updated the relevant forward-looking information; the weightings of the relevant macroeconomic scenarios of the respective market in which it operates; significant increase in credit risk; and assessing the indicators of impairment for the exposures in potentially affected sectors.

In determining the recoverability of trade receivables, the Group considers any significant change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. As a result, the Group has determined that no additional provision is required for the year ended 31 December 2020.

c) Commitments and contingent liabilities

The Group has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among the Group entities, customers and suppliers, to determine if there is any potential increase in contingent liabilities and commitments and have concluded no additional provision is required.

36. IMPACT OF COVID-19 (continued)

The impact of COVID-19 may continue to evolve, but at the present time the projections show that the Group has sufficient resources to continue in operational existence and its going concern position remains largely unaffected and unchanged from 31 December 2019. The Group will continue to closely monitor the impact of COVID-19 as the situation progresses to manage the potential business disruption COVID-19 outbreak may have on its 'operations and financial performance in 2021.

37. SUBSEQUENT EVENTS

Other than the events disclosed in these consolidated financial statements, there were no other subsequent events from the reporting date to the date the consolidated financial statements were authorised for issue that would require adjustment of the balances in the consolidated financial statements nor require additional disclosures in the notes to the consolidated financial statements.