# Gulf Pharmaceutical Industries P.S.C.

## CONSOLIDATED FINANCIAL STATEMENTS

### 31 DECEMBER 2019

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Julphar

## 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 2019.

**Financial Performance**

Julphar recorded net sales of AED 301.5million, a significant decline against 2018 net sales of AED 719.8 million.

The loss is AED 518.9million for the year ended 31 December 2019 as compared to loss of AED 617.8 million in the previous year.

**Outlook 2020:**

As we move forward, we will ensure that we are well equipped to respond to the constantly evolving marketplace. A key part of our strategy for 2020 is to resume sales in Saudi Arabia and consolidate our position in other markets. We have also started a Transformation program that will make the Company more competitive in the new business reality. We will forge new alliances, launch new products and optimize our portfolio, all of which will have a positive impact on long term performance. We have been conducting a comprehensive review of all areas of our business to identify cost savings and we have begun to recognize our work force. A number of new senior appointments will be made to our Management Team in 2020 who will be charged with pushing the company's new global strategy. We continue to roll-out further cost saving programs, which will position our business well to maximize cash flow generation.

**Proposed dividend**

Due to 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

12/ 3/ 2020

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

## Report on the Audit of the Consolidated Financial Statements

### *Qualified 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 2019, 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, notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 Qualified Opinion*

As disclosed in note 11 to the consolidated financial statements, the Group's investment in Planet Pharmacies L.L.C. ("Planet") which is a 40% owned associate of the Group, is carried at AED 264.5 million in the consolidated statement of financial position as at 31 December 2019 (2018: AED 283.7 million), and the Group's share of Planet's net loss of AED 19.2 million (2018: share of net profit of AED 15.3 million) is included in Group's consolidated statement of profit or loss for the year then ended. Due to the ongoing and previous legal cases and other conditions described in note 11, the audit of the consolidated financial statements of Planet for the years ended 31 December 2018 and 31 December 2019 were not completed for both statutory and Group reporting purposes. Hence, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Group's investment in Planet as at 31 December 2019 and 31 December 2018 and the Group's share of results from Planet for the said years, neither were we able to perform procedures relating to review of opening balances, transactions and disclosures. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary.

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

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 qualified opinion.

**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)**

***Material Uncertainty Related to Going Concern***

We draw attention to note 2 to the consolidated financial statements, which states that the Group incurred a loss of AED 518.9 million during the year ended 31 December 2019 and, as of that date, the Group's accumulated losses amounted to AED 503.2 million, its current liabilities exceeded current assets by AED 112.1 million and the Group's net cash outflow from operating activities reached AED 85.8 million. Moreover, the ban imposed on the Group's products by the Saudi Food and Drug Authority continues to have a negative impact on the Group's trading performance, gross margin and cash flows. As stated in note 2, these conditions, along with other matters as stated in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***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. In addition to the matters described in the Basis for Qualified Opinion and in Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report

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.

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

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

*Key Audit Matters (continued)*

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| ***Allowance for slow-moving inventories:***<br>The gross balance of inventory as at 31 December 2019 is AED 321.3 million, against which provision for slow moving and obsolete inventory amounting to AED 18.0 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.<br><br>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.<br><br>Refer to note 3.6 to the consolidated financial statements for the accounting policy on inventory provision, note 16 for inventory disclosure and movement of allowance for slow-moving inventories. | As part of our audit, the procedures to test the management estimates of allowance for slow-moving and obsolete inventory included the following:<br><br>▪ We obtained 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.<br>▪ 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;<br>▪ We performed analysis on specific provision for defective products made by the management based on reports pertaining to procurement of materials from the unapproved vendors and quality assessment of the finished goods;<br>▪ 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;<br>▪ 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.<br>▪ We recomputed the closing allowance for slow-moving inventory balance in the movement schedule and agreed it to the consolidated financial statements.<br>▪ We also checked that appropriate disclosures have been made in the consolidated financial statements in compliance with the International Financial Reporting Standards. |

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

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

***Key Audit Matters (continued)***

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td><u>Impairment of non-financial assets:</u><br>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 ban on the Parent Company's exports to Kingdom of Saudi Arabia by Saudi Food Drug Authority ("SFDA"), product recalled by United Arab Emirates Ministry of Health (MOH), and suspension on the Parent Company exporting its products to the State of Kuwait and Sultanate of Oman, as described in detail in note 2 to the consolidated financial statements. These events and conditions among others as specified in note 2 indicate that the carrying value of the non-financial assets of the Group might not be recoverable.<br><br>Management identified independent CGUs for the purposes of impairment assessment of the Group. Management estimated the value in use of the CGUs using an income approach, which was determined based on the present value of estimated future cash flows. Management's cash flow projections were based on management's best estimate of revenue growth and operating margins, taking into consideration recent business and market trends. The discount rates were based on the weighted-average cost of capital adjusted for the related business-specific risk.<br><br>Given the significant judgments made by management to estimate the recoverable amount of the CGUs, including management's judgments in selecting significant business assumptions to forecast future revenue and operating margin for 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, including the need to involve our valuation specialists. We have identified this to be a key audit matter.<br><br>Refer to note 3.6 to the consolidated financial statements for the accounting policy on impairment of non-financial assets.</td><td>Our procedures to test the impairment analysis prepared by the Group included the following:<br><br>▪ We obtained an understanding from the management and evaluated the design of the internal controls over Group's process pertaining to impairment assessment related to non-financial assets;<br>▪ We assessed whether the CGUs identified by the management is as per the guidance as laid down in International Financial Reporting Standards;<br>▪ With the assistance of our valuation specialists, we evaluated the reasonableness of the valuation methodology, including testing the mathematical accuracy of the calculation;<br>▪ Evaluated the reasonableness of management's revenue and operating margin forecasts by comparing the forecasts to (1) the historical operating results of the CGU, (2) internal communications to management and the Board of Directors, (3) industry reports containing analyses of the Group's products which are yet to be launched and are under clinical trials;<br>▪ We calculated or tested the computation of Weighted Average Cost of Capital ("WACC") and terminal growth rate used in the determination of cash flow forecasts;<br>▪ 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;<br>▪ 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. In addition, we involved our valuation specialists to assist in our evaluation of the significant assumptions described above used to develop the fair value estimates. We evaluated the reconciliation of the estimated aggregate fair value of the reporting units to the market capitalization of the Group.</td></tr>
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**Report on the audit of Consolidated Financial Statements (continued)**

***Other Matter***

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

***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 on other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report this fact. As described in the *Basis for Qualified Opinion* section above, we were unable to have access to the consolidated financial statements of Planet Pharmacies LLC (Planet), and therefore were unable to obtain sufficient appropriate audit evidence on Group's Investment in Planet. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

***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.

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.

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# 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***

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.
- 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.

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

**Report on Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (2) of 2015, except for the possible effects of the matter described in the Basis of Qualified Opinion section of our report, 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 2019 (if any), are disclosed in note 17 to the 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 2019, 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 2019; and

viii) note 8 reflects the social contributions made during the year ended 31 December 2019.

For Ernst & Young

T.S. Hari Gopal

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

12 March 2020

Sharjah, United Arab Emirates

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

| | Notes | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from contracts with customers | 4 | **301.5** | 719.8 |
| Cost of sales | 5 | **(370.0)** | (566.8) |
| **Gross (loss)/profit** | | **(68.5)** | 153.0 |
| Other income | 6 | **7.1** | 9.7 |
| Selling and distribution expenses | 7 | **(316.7)** | (319.6) |
| General and administrative expenses | 8 | **(85.0)** | (100.4) |
| Impairment of financial asset | 18 | **-** | (353.9) |
| Share of (loss)/profit of an associate | 11 | **(19.2)** | 15.3 |
| Gain from investments and others | | **3.2** | 0.5 |
| **Operating loss** | | **(479.1)** | (595.4) |
| Finance income | 9 | **1.0** | 5.1 |
| Finance costs | 10 | **(33.9)** | (26.8) |
| **Loss before tax from continuing operations** | | **(512.0)** | (617.1) |
| Income tax | 28 | **2.0** | (0.5) |
| **Loss for the year from continuing operations** | | **(510.0)** | (617.6) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 12 | **(8.9)** | (0.2) |
| **LOSS FOR THE YEAR** | | **(518.9)** | (617.8) |
| **Loss attributable to:** | | | |
| Equity holders of the Parent | | **(503.2)** | (612.6) |
| Non-controlling interests | | **(15.7)** | (5.2) |
| | | **(518.9)** | (617.8) |
| Earnings per share: Basic and diluted Loss per share attributable to the equity holders of the Parent (in UAE fils) | 13 | **(43.4)** | (52.9) |
| 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) | 13 | **(43.1)** | (53.0) |

The attached notes 1 to 38 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| **LOSS FOR THE YEAR** | **(518.9)** | (617.8) |
| **Other comprehensive income** | | |
| *Other comprehensive income that may be reclassified to profit or loss in subsequent periods:* | | |
| Currency translation differences | **(4.1)** | (1.5) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | **(523.0)** | (619.3) |
| **Total comprehensive loss attributable to:** | | |
| Equity holders of the Parent | **(507.3)** | (614.1) |
| Non-controlling interests | **(15.7)** | (5.2) |
| | **(523.0)** | (619.3) |

The attached notes 1 to 38 form part of these consolidated financial statements.

Gulf Pharmaceutical Industries P.S.C.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | *2019 AED millions* | *2018 AED millions* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **1,014.7** | 1,126.4 |
| Intangible assets | 15 | **20.1** | 43.6 |
| Investment in an associate | 11 | **264.5** | 283.7 |
| Deferred tax asset | 28 | **3.9** | 1.3 |
| | | **1,303.2** | 1,455.0 |
| **Current assets** | | | |
| Inventories | 16 | **293.6** | 333.4 |
| Financial assets at fair value through profit orloss | 17 | **22.1** | 21.3 |
| Trade and other receivables | 18 | **667.8** | 994.9 |
| Bank balances and cash | 19 | **58.8** | 87.8 |
| | | **1,042.3** | 1,437.4 |
| Assets held for sale | 12 | **104.9** | - |
| | | **1,147.2** | 1,437.4 |
| **TOTAL ASSETS** | | **2,450.4** | 2,892.4 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 20 | **1,158.5** | 1,158.5 |
| Statutory reserve | 21 | **185.5** | 562.4 |
| Voluntary reserve | 22 | **-** | 184.8 |
| Foreign currency translation reserve | | **(142.2)** | (138.1) |
| Accumulated losses | | **(503.2)** | (561.7) |
| **Equity attributable to shareholders of the Parent** | | **698.6** | 1,205.9 |
| Non-controlling interests | 23 | **179.4** | 174.6 |
| **Total equity** | | **878.0** | 1,380.5 |
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 24 | **59.1** | 69.2 |
| Bank & other borrowings | 25 | **250.0** | 15.8 |
| Deferred tax liability | 28 | **4.0** | - |
| | | **313.1** | 85.0 |
| **Current liabilities** | | | |
| Trade payables and accruals | 26 | **311.0** | 349.9 |
| Bank & other borrowings | 25 | **652.8** | 786.0 |
| Deferred revenue | 27 | **267.2** | 291.0 |
| | | **1,231.0** | 1,426.9 |
| Liabilities directly associated with the assets held for sale | 12 | **28.3** | - |
| | | **1,259.3** | 1,426.9 |
| **Total liabilities** | | **1,572.4** | 1,511.9 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,450.4** | 2,892.4 |

ShSaqer Humaid Al Qasimi
Chairman

Juergen Lauterbach
Chief Financial and Strategy Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | *Attributable to the equity holders of the Parent* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Share capital AED million*** | ***Statutory reserve AED million*** | ***Voluntary reserve AED million*** | ***Foreign currency translation reserve AED million*** | ***Retained earning/ (accumulated losses) AED million*** | ***Total AED million*** | ***Non-controlling interest AED million*** | ***Total equity AED million*** |
| As at 1 January 2018 | 1,124.8 | 562.4 | 184.8 | (136.6) | 197.0 | 1932.4 | 144.6 | 2,077.0 |
| Loss for the year | - | - | - | - | (612.6) | (612.6) | (5.2) | (617.8) |
| Other comprehensive loss | - | - | - | (1.5) | - | (1.5) | - | (1.5) |
| Total comprehensive loss for the year | - | - | - | (1.5) | (612.6) | (614.1) | (5.2) | (619.3) |
| Issuance of bonus shares (note 31) | 33.7 | - | - | - | (33.7) | - | - | - |
| Cash dividends paid (note 31) | - | - | - | - | (112.4) | (112.4) | - | (112.4) |
| Movement in non-controlling interest (note 23) | - | - | - | - | - | - | 35.2 | 35.2 |
| As at 31 December 2018 | 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 21 and 22) | - | (376.9) | (184.8) | - | 561.7 | - | - | - |
| Movement in non-controlling interest (note 23) | - | - | - | - | - | - | 20.5 | 20.5 |
| **As at 31 December 2019** | **1,158.5** | **185.5** | **-** | **(142.2)** | **(503.2)** | **698.6** | **179.4** | **878.0** |

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

| | Notes | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year before tax from continuing operations | | **(512.0)** | (617.1) |
| Loss for the year from discontinued operations | | **(8.9)** | (0.2) |
| Loss before tax for the year | | **(520.9)** | (617.3) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 14 | **82.3** | 84.6 |
| Amortisation of intangible assets | 15 | **5.6** | 5.6 |
| Impairment of intangible assets | 15 | **6.1** | - |
| Share of loss/(profit) from investment in an associate | 11 | **19.2** | (15.3) |
| Allowance for slow-moving inventories | 16 | **39.1** | - |
| Reversal of slow-moving inventories | 16 | **(30.6)** | - |
| Allowance for impairment of receivables | 18 | **(3.7)** | 353.9 |
| (Gain)/loss on revaluation of financial asset at FVTPL | 17 | **(0.8)** | 1.1 |
| Loss on sale of FVTPL | | **-** | 1.3 |
| Provision for employees' end of service benefits | 24 | **7.3** | 27.8 |
| Dividend income | | **-** | (2.9) |
| Finance income | 9 | **(1.0)** | (5.1) |
| Finance costs | 10 | **33.9** | 26.8 |
| | | **(363.5)** | (139.5) |
| **Changes in working capital** | | | |
| Trade and other receivables | | **307.9** | 237.6 |
| Inventories | | **21.6** | (5.4) |
| Trade payables, accruals and deferred revenue | | **(38.2)** | 92.9 |
| **Cash (used in)/generated from operations** | | **(72.2)** | 185.6 |
| Employees' end of service benefits paid | 24 | **(13.6)** | (5.3) |
| Income tax paid | | - | (1.6) |
| Net cash flows (used in)/from operating activities | | **(85.8)** | 178.7 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 14 | **(34.7)** | (51.8) |
| Purchase of financial assets at fair value through profit and loss (FVTPL) | | **-** | (16.9) |
| Proceeds from sale of financial asset at FVTPL | | **-** | 19.4 |
| Dividend received | | **-** | 2.9 |
| Finance income received | | **1.0** | 5.1 |
| Net cash flows used in investing activities | | **(33.7)** | (41.3) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from bank borrowings | 25 | **462.0** | 285.7 |
| Repayment of bank borrowings | | **(359.9)** | (393.3) |
| Dividends paid to equity holders of the Parent | | **-** | (112.4) |
| Increase in non-controlling interest | | **20.5** | 35.2 |
| Interest paid | | **(33.9)** | (26.8) |
| Net cash from/(used in) financing activities | | **88.7** | (211.6) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(30.8)** | (74.2) |
| Currency translation differences | | **1.8** | (6.5) |
| Cash and cash equivalents at 1 January | | **87.8** | 168.5 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 19 | **58.8** | 87.8 |

## 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 12 March 2020.

## 2. ASSESSMENT OF GOING CONCERN ASSUMPTION

As of 31 December 2019, the Group incurred a loss of AED 518.9 million and, as of that date, the Group's accumulated losses amounted to AED 503.2 million, its current liabilities exceeded current assets by AED 112.1 million and the Group's net cash outflow from operating activities reached AED 85.8 million. In addition, during the year end, the Group has not been able to comply with some loans' instalments and covenants. Subsequent to the year end, the Group has rescheduled the loans and obtained waivers for non-compliant loans.

Moreover, in September 2018, the Saudi Food Drug Authority (SFDA) performed a physical inspection of the Company's plant in Ras Al Khaimah and as a result of their inspection, they imposed a temporary ban on the Company exporting its products to the Kingdom of Saudi Arabia (KSA) and Kingdom of Bahrain. Furthermore, in May 2019, the Gulf Health Council (GHC) performed a physical inspection of the Company's plants in Ras Al Khaimah and issued a report in July 2019. As a result of their inspection, they imposed a temporary suspension on the Company exporting its products to the State of Kuwait and Sultanate of Oman. Further, during early 2019, certain batches of a variety of products were recalled by the United Arab Emirates Ministry of Health (MOH) for stability reasons.

The circumstances outlined give rise to a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Despite these events and conditions, consolidated financial statements have been prepared on a going concern basis considering the following facts, events and resolutions by the Board of Directors and management:

a) Subsequent to the year ended 31 December 2019, the Company's Board of Directors in its meeting held on 16 January 2020, have decided to strengthen the capital base of the Company by reducing the issued share capital to extinguish the accumulated losses as at 31 December 2019 and followed by a rights issue at a price of AED 1 per share, subject to the approval of the Company's shareholder and Securities and Commodity Authority (SCA). The transaction is expected to be completed in Q3 2020.

b) Management has undertaken various operational measures and restructuring decisions and expects that the inspection results will be positive, the suspensions will soon be lifted and, trading activities with existing or new customers will improve. The Company has made appointments of several key management personnel and consultants to oversee the strategic direction of the Company;

c) Since the suspension began, management has been working closely with the SFDA and GHC to address all the issues raised in the both reports. There was a re-inspection by SFDA and GHC in January 2020 and the Company expects the suspension to be lifted by Q2 2020.

d) In addition to the ongoing strenuous efforts that management is making to get the suspension lifted, the Group has undertaken various marketing initiatives and negotiated with several customers in the Middle East and North Africa region to notably grow trading activities and expand its market share in some of the countries in that region. The Group has a healthy order book for 2020 to supply the goods and address market demand;

**2. ASSESSMENT OF GOING CONCERN ASSUMPTION (continued)**

e) The Group will strengthen its balance sheet with capital restructuring and is currently in advanced negotiations to restructure existing loans and obtain new lines through internal and external sources to bridge its current and future working capital requirements to ensure business continuity;

f) Julphar VI plant has re-opened after a successful inspection by the Ministry of Health in UAE. Moreover, management believes it has taken necessary rectification measures to fully address the other issues raised by MOH and is hopeful that these products would be ready for sale in the market once the same is cleared by MOH;

g) Forty-three new products will be launched during 2020 covering a broad range of therapeutic areas. This will help the Company to improve its sales to the market and recover is leading market position.

The Management and the Board of Directors believe that the combination of these measures and events will enable the Group to generate sufficient future cash flows in order to honour its commitment, resume its growth activities and continue as a going concern.

## 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 Company's functional and presentation currency, 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 and a disposal group held for sale measured at fair value less cost to sell.

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

### 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.

### 3.3 Basis of consolidation

These consolidated financial statements reflect the operations of the Group as at 31 December 2019. 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"):

| *Serial No.* | *Name of subsidiary* | *Place of incorporation and operation* | *Percentage of Ownership 2019* | *2018* | *Subsidiary activity* |
|---|---|---|---|---|---|
| 1. | Mena Cool F.Z.E (note (a)) | Ras Al Khaimah UAE | **100%** | 100% | Transportation |
| 2. | Julphar Pharmaceuticals P.L.C | Ethiopia | **55%** | 55% | Manufacturing of medicines, wrapping and packing materials |
| 3. | Gulf Inject L.L.C. (note (b)) | Dubai – UAE | **100%** | 100% | Manufacturing of medical supplies |
| 4. | RAK Pharmaceuticals Pvt. Ltd. (note (b)) | Dhaka – Bangladesh | **50.5%** | 50.5% | Manufacturing of medicines |

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.3 Basis of consolidation (continued)**

| *Serial No.* | *Name of subsidiary* | *Place of incorporation and operation* | *Percentage of Ownership* *2019* | *2018* | *Subsidiary activity* |
|---|---|---|---|---|---|
| 5. | Julphar Saudi Arabia L.L.C. | Rabigh – Saudi Arabia | **51%** | 51% | Manufacturing of medicines |
| 6. | Julphar Egypt Company L.L.C. | Cairo – Egypt | **100%** | 100% | Distributors of Julphar's products in Egypt |
| 7. | Julphar Diabetes L.L.C. (note (a)) | Ras Al Khaimah – UAE | **100%** | 100% | Manufacturing of medicines |
| 8. | Julphar General Trading L.L.C. (note (a)) | Ras Al Khaimah – UAE | **100%** | 100% | General Trading |
| 9. | Mena Cool Machinery Trading (note (a)) | Ras Al Khaimah – UAE | **100%** | 100% | General Trading |
| 10. | Julphar Life Science L.L.C. (note (a)) | Ras Al Khaimah – UAE | **100%** | 100% | General Trading |
| 11. | Julphar Pakistan Private Limited (note (a)) | Pakistan | **99%** | **99%** | Distributors of Julphar's products in Pakistan |
| 12. | Julphar Tunisie (note (a)) | Tunisia | **99%** | **99%** | Distributors of Julphar's products in Tunisia |

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, management has classified these subsidiaries as disposal group held for sale as at 31 December 2019 (note 12)

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:

- 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Basis of consolidation (continued)

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 holder of the Establishment and to the non-controlling interest, 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 interest 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 2018, except for the adoption of new standards effective as of 1 January 2019 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. Some of the previously reported balances were also reclassified to improve the comparability of the financial statements (note 37).

***IFRS 16 Leases***

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

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with a date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Further, the Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Due to the exemptions taken as above, the Group did not have any impact on the adoption of IFRS 16 except for the impact on the Group's associate which has not been currently finalised due to the matters specified in note 11.

***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Interpretation did not have an impact on the consolidated financial statements of the Group as it does not have any uncertain tax positions.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.4 Changes in accounting policies and disclosures

***Amendments to IFRS 9: Prepayment Features with Negative Compensation***
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement***
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

***Amendments to IAS 28: Long-term interests in associates and joint ventures***
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

***Annual improvement 2015-2017 cycle***

***IFRS 3 Business Combinations***
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

***IFRS 11 Joint Arrangements***
An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.4 Changes in accounting policies and disclosures**

***IAS 12 Income Taxes***
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

***IAS 23 Borrowing Costs***
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no 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.

***IFRS 17 Insurance Contracts***
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

***Amendments to IFRS 3: Definition of a Business***
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 Standards issued but not yet effective (continued)

***Amendments to IAS 1 and IAS 8: Definition of Material***
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

***The Conceptual Framework for Financial Reporting***
The Conceptual Framework for Financial Reporting (effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020). The amendment is not going to impact the group.

***Amendments to IFRS 9, IAS 39 and IFRS 7***
Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (Effective for annual periods beginning on or after 1 January 2020). This standard is not applicable to the Group.

### 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**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 then 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 Group also provides retrospective rebates to certain customers once the quantity of goods purchased during the period exceeds the threshold specified in the contract. The rights of return, volume rebates give rise to variable consideration.

*(a) 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.

*(b) Rebates*
The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. 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 expected future rebates (i.e., the amount not included in the transaction price).

*(c) Volume Discounts*
Volume discounts granted to customers are recognised as a revenue deduction at the time the related sales are recognised or when the incentives are offered. They are calculated on the basis of the specific terms of the individual agreements.

*(d) Chargebacks*
The Group sells its products directly to wholesale distributors and certain retail pharmacy chains. The Group also sells its products indirectly to independent pharmacies (indirect customers). The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select the distributor from which they purchase the products at agreed-upon prices. The Group provides credit to the wholesale distributors for the difference between the agreed-upon price with the indirect customer and the wholesale distributor's invoice price. This credit is called a chargeback. The provision for chargebacks is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory. The credit for chargeback is recognised as a deduction from revenue.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**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.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Property, plant and equipment (continued)**
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 income in the period in which they are incurred.

*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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Intangible assets (continued)**
*Intellectual property, patents and distribution rights and product trade names (Developed products)*
Currently marketed products represent the composite value of acquired intellectual property, patents and distribution rights and product trade names that have been acquired as part of a business combination and are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. These are amortised using the straight-line basis over the useful life ranging from 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:

| | ***Licenses and permits*** | ***Intellectual property, patents and distribution rights and product trade names*** | ***Computer software*** |
|---|---|---|---|
| ***Useful lives*** | Finite (5 to 20 years) | Finite (15 to 20 years) | Finite 3 years |
| ***Amortisation method used*** | 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 intellectual property, patents and distribution rights and | Amortised on a straight-line basis over the period of the useful life |
| ***Internally generated or acquired*** | Acquired | 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.

*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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**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 (applicable from 1 January 2019)**
*Right-of-use assets*
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Leases (applicable from 1 January 2019) (continued)**
*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.

**Leases (applicable before 1 January 2019)**
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

*Group as a lessee*
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss 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 though 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***

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

*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 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
- 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.

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.

**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)**

***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 365 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 interest-bearing loans and 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Summary of significant accounting policies (continued)**

**Taxes (continued)**
*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.

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 company'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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Summary of significant accounting policies (continued)

**Foreign currencies (continued)**

*i) Transactions and balances (continued)*

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.

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.

***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, the Board of Directors announced its decision to sell Gulf Inject L.L.C. & RAK Pharmaceutical Pvt Ltd. 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. & RAK Pharmaceutical Pvt Ltd 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 12.

**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.

**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 16. 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 statement of financial position.

2. Packaging materials - Packaging materials which are due to expire in the next three months are assessed for use in production or any other alternative options. If the packaging materials are deemed not to be usable, provision for expiry is recorded in the 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 statement of financial position.

At the reporting date, provision for stock losses were AED 18.0 million (2018: 9.5 million). 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 calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. 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.

The Group has AED 19.7 million (2018: AED 6.3 million) of tax losses carried forward in relation to the non – Saudi partners of the Julphar Saudi Arabia L.L.C. (a subsidiary company). 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 3.9 million (2018: AED 1.3 million) relating to tax losses (note 28).

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.7 Significant accounting judgements, estimates and assumptions (continued)**

**Estimates and assumptions (continued)**
***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 2019 by approximately AED 8 million.

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

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

**4. REVENUE FROM CONTRACTS WITH CUSTOMERS**

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Gross sales | **359.9** | 845.2 |
| Less: commissions | **(18.4)** | (72.9) |
| Net Sales | **341.5** | 772.3 |
| Less: net sales relating to discontinued operations (note 12) | **(40.0)** | (52.5) |
| | **301.5** | 719.8 |

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:

| **Geographic information** | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| UAE | **9.1** | 178.2 |
| Other GCC countries | **34.1** | 169.5 |
| Other countries | **298.3** | 424.6 |
| | **341.5** | 772.3 |
| Less: net sales relating to discontinued operations (note 12) | **(40.0)** | (52.5) |
| | **301.5** | 719.8 |

## 4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

### 4.1 Contract balances

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| **Contract assets** | | |
| Trade receivables (note 18) | **376.8** | 567.8 |
| Due from a related party (note 18) | **266.6** | 354.7 |
| | **643.4** | 922.5 |
| **Contract liabilities** | | |
| Refund liabilities (note 26) | **85.5** | 32.5 |
| Advances from customers | **5.6** | - |
| Deferred revenue (note 27) | **267.2** | 291.0 |
| Commissions payable (note 26) | **52.5** | 60.7 |
| | **410.8** | 384.2 |

### 4.2 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 27):

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Within one year | **267.2** | 101.0 |
| More than one year | **-** | 190.0 |
| | **267.2** | 291.0 |

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Raw materials consumed | **162.5** | 338.2 |
| Salaries and wages | **94.2** | 107.8 |
| Depreciation expense (note 14) | **69.0** | 70.2 |
| Consumption of laboratory items | **26.6** | 30.0 |
| Electricity and water | **28.1** | 28.2 |
| Others | **12.7** | 19.6 |
| | **393.1** | 594.0 |
| Less: cost of sales relating to discontinued operations (note 12(c)) | **(23.1)** | (27.2) |
| | **370.0** | 566.8 |

### 6. OTHER INCOME

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Exchange gain | **4.6** | 6.1 |
| Sale of raw materials | **0.5** | 1.8 |
| Cafeteria operating income | **1.6** | 1.6 |
| Other income | **10.6** | 1.8 |
| | **17.3** | 11.3 |
| Less: other income relating to discontinued operations (note 12(c)) | **(10.2)** | (1.6) |
| | **7.1** | 9.7 |

### 7. SELLING AND DISTRIBUTION EXPENSES

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Salaries, wages and related expenditures | **142.1** | 184.0 |
| Scrapping | **52.0** | 13.7 |
| Sales expenses | **44.9** | 25.6 |
| Penalty on sales | **22.2** | 6.5 |
| Advertisement and promotion | **13.5** | 41.3 |
| Research and development expenditures | **13.0** | - |
| Consumables | **10.1** | 11.6 |
| Freight charges | **6.2** | 14.9 |
| Bank charges and commission | **3.0** | 2.8 |
| Rent | **3.0** | 2.5 |
| Depreciation (note 14) | **2.9** | 6.4 |
| Product registration | **2.8** | 3.6 |
| Travelling | **1.5** | 3.8 |
| Visa | **1.5** | 1.9 |
| Utilities | **1.4** | 1.5 |
| Boarding | **1.1** | 2.3 |
| Motor vehicle | **1.0** | 1.3 |
| Accommodation | **0.7** | 1.4 |
| Insurance | **0.3** | 0.8 |
| Others | **23.9** | 19.7 |
| | **347.1** | 345.6 |
| Less: selling and distribution expenses relating to discontinued operations (note 12(c)) | **(30.4)** | (26.0) |
| | **316.7** | 319.6 |

## 8. GENERAL AND ADMINISTRATIVE EXPENSES

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Salaries, wages and related expenditures | **34.1** | 47.1 |
| Depreciation (note 14) | **10.4** | 8.0 |
| Legal and professional | **5.8** | 3.3 |
| Amortisation (note 15) | **5.6** | 5.6 |
| Consumables | **4.8** | 4.5 |
| Utilities | **3.6** | 3.6 |
| Transportation and visa charges | **1.8** | 3.9 |
| Impairment of intangible assets (note 15) | **1.7** | - |
| Loss on exchange | **1.5** | 1.7 |
| Technical know-how | **1.5** | 1.5 |
| Bank charges and commission | **1.1** | 1.2 |
| Donation expenses (note below) | **0.8** | 1.3 |
| Directors sitting fees | **-** | 7.1 |
| Others | **12.3** | 11.6 |
| | **85.0** | 100.4 |

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

## 9. FINANCE INCOME

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Interest income on fixed deposits | **1.1** | 5.1 |
| Less: finance income relating to discontinued operations (note 12(c)) | **(0.1)** | - |
| | **1.0** | 5.1 |

## 10. FINANCE COSTS

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Interest on bank overdraft | **11.8** | 7.0 |
| Interest on bank and other loans | **23.4** | 20.9 |
| | **35.2** | 27.9 |
| Less: finance cost relating to discontinued operations (note 12(c)) | **(1.3)** | (1.1) |
| | **33.9** | 26.8 |

**11. INVESTMENTS IN AN ASSOCIATE**

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 25).

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

| *Name of associate* | *Place of incorporation and operation* | *Percentage of ownership* | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|---|---|
| Planet Pharmacies L.L.C. | UAE | 40% | **264.5** | 283.7 |

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Balance at the beginning of the year | **283.7** | 268.4 |
| Share of associate's consolidated loss/ profit for the year | **(19.2)** | 15.3 |
| At the end of the year | **264.5** | 283.7 |

Planet has two subsidiaries in KSA, which are held under nominee shareholder arrangements. During 2018, one of the two nominee shareholders ("nominee shareholder") of Planet's subsidiaries, took control of the subsidiaries in KSA by appointing herself as the General Manager and took actions which she is not empowered to do under the nominee shareholder agreements. The Group considered this to be unlawful and, as a result filed a case against the nominee shareholder regarding her self- appointment as the General Manager and for claiming outright ownership of the subsidiaries.

The case was heard by the court in KSA and on 12 September 2019, Planet received the judgment in their favor. The Articles of Association of the subsidiaries were amended accordingly. The court also ordered the nominee shareholder to pay back AED 9.8 million to Planet. As a result of the above, Planet has now regained full control of the pharmacies in KSA.

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Current assets | **868.9** | 917.3 |
| Non-current assets | **453.7** | 444.4 |
| Current liabilities | **(417.0)** | (414.8) |
| Non-current liabilities | **(26.8)** | (16.2) |
| Equity | **878.8** | 930.7 |
| Group's share in equity- 40% (2018:40%) | **351.5** | 372.3 |

## 11. INVESTMENTS IN AN ASSOCIATE (continued)

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Revenue from contracts with customers | **771.2** | 848.2 |
| Cost of sales | **(598.1)** | (629.3) |
| Administrative expenses | **(223.8)** | (183.6) |
| Finance income | **2.7** | 3.0 |
| (Loss)/profit for the year | **(48.0)** | 38.3 |
| Group's share of (loss)/profit for the year | **(19.2)** | 15.3 |

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 31 December | **264.5** | 283.7 |
| Unrealised profit on assets contributed towards acquisition and establishment of associate | **87.0** | 87.3 |
| Share on gain on sale of subsidiary not considered for equity pick-up | **-** | 1.2 |
| Closing balance | **351.5** | 372.2 |

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

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 2019 and 2018.

## 12. 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. The sale of Gulf Inject is expected to be completed within a year from the reporting date. Accordingly, Gulf Inject has been classified as a disposal group held for sale and as a discontinued operation.

With Gulf Inject being classified as a discontinued operation, the results of Gulf Inject has not been presented in the segment information (note 32). 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 (incurred)/generated by Gulf Inject LLC are as follows:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Operating | **(0.5)** | 5.5 |
| Investing | **(1.7)** | (4.8) |
| Financing | **-** | (0.1) |
| Net cash (outflow) / inflow | **(2.2)** | 0.6 |

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 13.

### b) RAK Pharmaceuticals Pvt Ltd.

During the year ended 31 December 2019, the Board of Directors of the Company decided to sell RAK Pharmaceuticals Pvt Ltd ("Julphar Bangladesh"). The Company owns 50.5% of Julphar Bangladesh. The sale of Julphar Bangladesh is expected to be completed within a year from the reporting date. Accordingly, Julphar Bangladesh has been classified as a disposal group held for sale and as a discontinued operation.

With Julphar Bangladesh being classified as a discontinued operation, the results of Julphar Bangladesh has not been presented in the segment information (note 32). 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:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Operating | **2.5** | 2.1 |
| Investing | **(1.2)** | (1.0) |
| Financing | **(1.3)** | (1.0) |
| **Net cash inflow** | **-** | 0.1 |

***Measurement of fair value***
The non-recurring fair value measurement for the disposal group of AED 16.1 million (before costs to sell) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (note 34).

***Basic and diluted loss per share***
Basic and diluted loss per share is disclosed in note 13.

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

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

| | ***2019*** | | | *2018* | | |
|---|---|---|---|---|---|---|
| | ***Gulf Inject LLC AED millions*** | ***RAK Pharmaceuticals Pvt. Ltd. AED millions*** | ***Total AED millions*** | *Gulf Inject LLC AED millions* | *RAK Pharmaceuticals Pvt. Ltd. AED millions* | *Total AED millions* |
| Revenue from contracts with customers | **13.2** | **26.8** | **40.0** | 24.4 | 28.1 | 52.5 |
| Cost of sales | **(12.2)** | **(10.9)** | **(23.1)** | (16.2) | (11.0) | (27.2) |
| **GROSS PROFIT** | **1.0** | **15.9** | **16.9** | 8.2 | 17.1 | 25.3 |
| Other income | **7.9** | **2.3** | **10.2** | 0.4 | 1.2 | 1.6 |
| Selling and distribution expenses | **(6.9)** | **(23.5)** | **(30.4)** | (4.8) | (21.2) | (26.0) |
| **OPERATING PROFIT/ (LOSS)** | **2.0** | **(5.3)** | **(3.3)** | 3.8 | (2.9) | 0.9 |
| Finance income | 0.1 | - | 0.1 | - | - | - |
| Finance costs | - | (1.3) | (1.3) | (0.1) | (1.0) | (1.1) |
| Impairment loss recognized on the remeasurement to fair value less cost to sell | - | (4.4) | (4.4) | - | - | - |
| **PROFIT/ (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS** | 2.1 | (11.0) | (8.9) | 3.7 | (3.9) | (0.2) |
| Attributable to: | | | | | | |
| Equity holders of the Parent | 2.1 | (5.6) | (3.5) | 3.7 | (2.0) | 1.7 |
| Non-controlling interests | - | (5.4) | (5.4) | - | (1.9) | (1.9) |
| | **2.1** | **(11.0)** | **(8.9)** | 3.7 | (3.9) | (0.2) |

There was 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.

## 12. 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 2019 are as follows:

| | *Gulf Inject LLC AED millions* | *RAK Pharmaceuticals Pvt. Ltd. AED millions* | *Total AED millions* |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | **24.7** | **35.6** | **60.3** |
| Intangible assets | **-** | **10.1** | **10.1** |
| Inventories | **4.5** | **5.2** | **9.7** |
| Trade and other receivables | **19.8** | **4.4** | **24.2** |
| Bank balances and cash | **0.4** | **0.2** | **0.6** |
| **Assets held for sale** | **49.4** | **55.5** | **104.9** |
| **LIABILITIES** | | | |
| Provision for employees' end of service benefits | **0.4** | **3.4** | **3.8** |
| Trade payables and accruals | **5.4** | **19.1** | **24.5** |
| Liabilities directly associated with assets held for sale | **5.8** | **22.5** | **28.3** |
| **Net assets directly associated with disposal group** | **43.6** | **33.0** | **76.6** |
| Less: net assets attributable to non-controlling interest | **-** | **(16.3)** | **(16.3)** |
| **Group's share of net assets directly associated with disposal group** | **43.6** | **16.7** | **60.3** |

***Write-down of intangible asset***

Immediately before the classification of Julphar Bangladesh 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. Fair value measurement disclosures are provided below and in note 34.

## 13. EARNINGS PER SHARE (EPS)

Basis EPS is calculated by dividing the profit / (loss) for the year attributable to ordinary equity holders of the Parent by the weighted average number of outstanding during the year

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Loss for the year attributable to the equity shareholders of the Parent: | | |
| Continuing operations | **(499.7)** | (614.3) |
| Discontinued operations (note 12(b)) | **(3.5)** | 1.7 |
| **Loss for the year attributable to the equity holders of the parent** | **(503.2)** | (612.6) |
| Weighted average number of shares | **1,158.5** | 1,158.5 |

## 13. EARNINGS PER SHARE (EPS)

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Basic loss per share attributable to the equity holders of the Parent (in UAE fils) | **(43.4)** | (52.9) |
| Basic loss per share from continuing operations attributable to the equity holders of the Parent (in UAE fils) | **(43.1)** | (53.0) |

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:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| (Loss)/profit for the year attributable to the equity shareholders of the Parent from discontinued operations (note 12(c)) | **(3.5)** | 1.7 |
| Basic (loss)/profit per share from discontinued operations attributable to the equity holders of the Parent (in UAE fils) | **(0.3)** | 0.1 |

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

## 14. PROPERTY PLANT AND EQUIPMENT

| | *Land AED millions* | *Buildings AED millions* | *Plant and machinery AED millions* | *Installations AED millions* | *Motor vehicles AED millions* | *Furniture and fixtures AED millions* | *Tools and equipment AED millions* | *Leasehold improvements AED millions* | *Capital - work-in progress AED millions* | *Total AED millions* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| At 1 January 2018 | 63.8 | 542.4 | 1,066.0 | 125.1 | 33.4 | 17.1 | 28.1 | 10.3 | 146.8 | 2,033.0 |
| Additions | - | 0.5 | 6.3 | 0.5 | 0.4 | - | 1.3 | - | 42.8 | 51.8 |
| Disposals | - | - | - | - | (0.8) | - | - | - | - | (0.8) |
| Exchange differences | (0.1) | (0.2) | 1.6 | - | 0.1 | - | - | - | - | 1.4 |
| At 31 December 2018 | 63.7 | 542.7 | 1,073.9 | 125.6 | 33.1 | 17.1 | 29.4 | 10.3 | 189.6 | 2,085.4 |
| 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 12(d)) | (19.4) | (23.9) | (35.1) | (0.2) | (1.6) | (2.1) | (10.0) | (1.0) | - | (93.4) |
| Exchange differences | - | (1.1) | (1.8) | - | - | (1.0) | (0.1) | - | - | (3.9) |
| At 31 December 2019 | **44.3** | **623.9** | **1,147.7** | **128.9** | **30.9** | **17.1** | **19.9** | **9.3** | **-** | **2,022.0** |
| **Depreciation** | | | | | | | | | | |
| At 1 January 2018 | - | 199.3 | 512.7 | 100.2 | 31.9 | 16.1 | 8.0 | 7.9 | - | 876.1 |
| Charge for the year | - | 19.0 | 54.4 | 6.6 | 0.9 | 0.9 | 2.6 | 0.2 | - | 84.6 |
| Disposals | - | - | - | - | (0.8) | - | - | - | - | (0.8) |
| Exchange differences | - | - | 1.1 | - | (0.2) | 0.1 | (1.9) | - | - | (0.9) |
| At 31 December 2018 | - | 218.3 | 568.2 | 106.8 | 31.8 | 17.1 | 8.7 | 8.1 | - | 959.0 |
| Charge for the year | - | 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 12(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** |
| **Net book value:** | | | | | | | | | | |
| **At 31 December 2019** | **44.3** | **392.3** | **540.0** | **16.6** | **-** | **1.0** | **19.3** | **1.2** | **-** | **1,014.7** |
| At 31 December 2018 | 63.7 | 324.4 | 505.7 | 18.8 | 1.3 | - | 20.7 | 2.2 | 189.6 | 1,126.4 |

**14. PROPERTY PLANT AND EQUIPMENT (continued)**

a) Certain property, plant and equipment of the Group are mortgaged against bank facilities (note 25).

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.

c) The above depreciation charge has been allocated in the consolidated statement of income as follows:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Cost of sales (note 5) | **69.0** | 70.2 |
| Selling and distribution expenses (note 7) | **2.9** | 6.4 |
| General and administrative expenses (note 8) | **10.4** | 8.0 |
| | **82.3** | 84.6 |

d) The factory and its related buildings of the Parent Company are constructed on plots of land amounting to AED 3.6 million (2018: 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 (2018: AED 15.4 million) which is registered in the name of a minority shareholder.

f) 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 11.7%. The expected growth rate in revenue over the next 5 years is 5% to 6% per annum. The terminal growth budgeted beyond 5 years is 3%.

*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 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 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.

## 15. INTANGIBLE ASSETS

| | *Licenses and permits AED millions* | *Developed products AED millions* | *Others AED millions* | *Total AED millions* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 32.4 | 19.6 | 7.7 | 59.7 |
| Foreign currency translation | 2.7 | - | - | 2.7 |
| At 31 December 2018 | 35.1 | 19.6 | 7.7 | 62.4 |
| Reclassified to assets held for sale (note 12(d)) | - | (19.6) | - | (19.6) |
| Foreign currency translation | (1.7) | - | - | (1.7) |
| At 31 December 2019 | **33.4** | **-** | **7.7** | **41.1** |
| **Accumulated amortisation** | | | | |
| At 1 January 2018 | 8.4 | 3.0 | 1.8 | 13.2 |
| Charge for the year (note 8) | 2.8 | 1.0 | 1.8 | 5.6 |
| At 31 December 2018 | 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 12(d)) | - | (5.1) | - | (5.1) |
| At 31 December 2019 | **15.7** | **-** | **5.3** | **21.0** |
| **Net book value** | | | | |
| **At 31 December 2019** | **17.7** | **-** | **2.4** | **20.1** |
| At 31 December 2018 | 23.9 | 15.6 | 4.1 | 43.6 |

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.

## 16. INVENTORIES

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Raw materials (note (a)) | **141.9** | 105.9 |
| Packing materials (note (a)) | **45.4** | 52.8 |
| Work-in-progress | **12.3** | 29.0 |
| Finished goods | **70.4** | 101.2 |
| Goods in transit | **2.5** | 8.0 |
| Consumables | **17.7** | 16.0 |
| Spare parts | **31.1** | 30.0 |
| | **321.3** | 342.9 |
| Less: allowance for slow moving inventories | **(18.0)** | (9.5) |
| | **303.3** | 333.4 |
| Less: inventories attributable to assets held for sale (note 12(d)) | **(9.7)** | - |
| | **293.6** | 333.4 |

**16. INVENTORIES (continued)**

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 1 January | **9.5** | 9.5 |
| Charge during the year | **39.1** | - |
| Written-off during the year | **(30.6)** | - |
| At 31 December | **18.0** | 9.5 |

The cost of inventories recognised as an expense and included under cost of sales amounted to AED 162.5 million (2018: AED 338.2 million) (note 5).

a) Includes raw materials and packing materials amounting to AED 26.3 million (2018: nil) held by a third party.

**17. 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:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| In UAE markets | **22.0** | 21.2 |
| In other GCC markets | **0.1** | 0.1 |
| | **22.1** | 21.3 |

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 1 January | **21.3** | 11.8 |
| Fair value change for change in accounting policy | - | 14.4 |
| Purchase during the year | - | 16.9 |
| Disposals during the year | - | (20.7) |
| Net gain/(loss) on revaluation | **0.8** | (1.1) |
| | **22.1** | 21.3 |

Out of the investments amounting to AED 22.1 million, AED 19.5 million relates to an investment in unquoted equity security of an entity which is engaged in manufacturing of packing materials. The Group has 7.25% 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 cash flow projections. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (note 34).

## 18. TRADE AND OTHER RECEIVABLES

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Trade receivables | **792.7** | 987.4 |
| Less: allowance for expected credit losses | **(415.9)** | (419.6) |
| | **376.8** | 567.8 |
| Due from a related party (note 29(a)) | **266.6** | 354.7 |
| Advances to suppliers | **17.4** | 44.6 |
| Value added tax receivable | **11.0** | 8.0 |
| Prepaid expenses | **0.9** | 2.8 |
| Staff receivable | **-** | 1.5 |
| Other receivables | **19.3** | 15.5 |
| | **692.0** | 994.9 |
| Less: trade and other receivables attributable to assets held for sale (note 12(d)) | **(24.2)** | - |
| | **667.8** | 994.9 |

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 1 January | **419.6** | 70.4 |
| Allowance for receivables impairment | **-** | 353.9 |
| Reversal of allowances on subsequent collection | **(3.7)** | (4.7) |
| At end of the year | **415.9** | 419.6 |

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 have diminished significantly. Furthermore, the respective receivable ageing has 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 2019 is AED 218.4 million (2018: AED 244.9 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 (2018: AED 192 million), recorded within deferred revenue and the remaining balance is expected to be recoverable by the management.

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

Further information regarding trade receivable is given credit risk (note 33)

***Impairment of trade receivables***

A provision has been made for the estimated impairment amounts of trade receivables of AED 415.9 million (2018: AED 419.6 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.

## 18. TRADE AND OTHER RECEIVABLES (continued)

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

For the remaining receivables, the provision has been booked on the basis of expected credit loss model. Information about the Group's financial assets subject to IFRS 9's new expected credit loss model and the Group's impairment methodology can be found in note 3.7.

The ageing analysis of un-impaired trade receivables is as follows:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| 0 – 180 days | **155.1** | 241.5 |
| 181 – 365 days | **1.9** | 213.1 |
| More than 365 days | **219.8** | 113.2 |
| | **376.8** | 567.8 |

As of 31 December 2019, trade receivables of AED 415.9 million (2018: AED 419.6 million) were impaired and provided for.

The Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The carrying amounts of the Group's trade and other receivables are denominated in AED, USD and EGP.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. The other classes within trade and other receivables do not contain impaired assets.

## 19. CASH AND CASH EQUIVALENTS

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Bank balances: | | |
| Current accounts | **56.9** | 72.8 |
| Short term bank deposits | **0.4** | 11.2 |
| | **57.3** | 84.0 |
| Cash in hand | **2.1** | 3.8 |
| | **59.4** | 87.8 |
| Less: cash and bank balances attributable to assets held for sale (note 12(d)) | **(0.6)** | - |
| Cash and bank balances | **58.8** | 87.8 |

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

## 20. SHARE CAPITAL

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| *Authorised, issued and fully paid* | | |
| 1,158,502,800 ordinary shares (2018:1,158,502,800 ordinary shares at par value of AED 1 | **1,158.5** | 1,158.5 |

## 21. 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.

## 22. 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.

## 23. NON-CONTROLLING INTERESTS

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Non-controlling interests | **179.4** | 174.6 |

During the year ended 31 December 2019, the minority party in one of the Group's subsidiary in KSA has injected capital amounting to AED 20.5 million (2018: AED 26.9 million).

## 24. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 1 January | **69.2** | 46.7 |
| Provided during the year | **7.3** | 27.8 |
| Paid during the year | **(13.6)** | (5.3) |
| At 31 December | **62.9** | 69.2 |
| Less: employees' end of service benefits attributable to liability directly associated with assets held for sale (note 12(d)) | **(3.8)** | - |
| | **59.1** | 69.2 |

## 25. BANK & OTHER BORROWINGS

| | *Interest rate(%)* | *Maturity* | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|---|---|
| **Current interest bearing loans and borrowings** | | | | |
| Bank overdraft | **3m EIBOR+2.5%** | On demand | **271.1** | 259.2 |
| Bank & other loans | | | | |
| AED 300 million loan | **3m EIBOR+2.75%** | 1 January 2026 | **50.0** | - |
| USD 150 million loan | **3.65%** | 4 September 2020 | **153.0** | 382.9 |
| AED 50 million loan (note below) | **3m EIBOR+1.65%** | 28 April 2021 | **15.8** | 10.5 |
| EUR 4.5 million | **3m EIBOR+1.25%** | 31 March 2020 | **12.9** | 19.7 |
| AED 150 million loan (note 29) | **3m EIBOR+3.5%** | 25 June 2020 | **150.0** | - |
| USD 25 million loan | **2.5%** | 31 January 2019 | - | 91.9 |
| EUR 5 million | **3.1%** | 31 January 2019 | - | 21.8 |
| Total current interest bearing loans and borrowings | | | **652.8** | 786.0 |
| **Non-current interest bearing loans and borrowings** | | | | |
| Bank loans | | | | |
| AED 300 million loan | **3m EIBOR+2.75%** | 1-Jan-26 | **250.0** | - |
| AED 50 million loan | **3m EIBOR+1.65%** | 28-Apr-21 | - | 15.8 |
| Total non current interest bearing loans and borrowings | | | **250.0** | 15.8 |
| Total interest bearing loans and borrowings | | | **902.8** | 801.8 |

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| The bank & other loans comprise of | | |
| Ijara Loans | **153.0** | 428.5 |
| Other Loans | **478.7** | 114.1 |
| | **631.7** | 542.6 |

**25. BANK & OTHER BORROWINGS (continued)**

The principal features of the bank borrowings are as follows:

a) Ijara Loan

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

Significant security terms are as follows:

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

b) Other loans:

The Group has obtained long and short-term loans from local banks to finance the purchase of the factory's machinery and equipment and to secure working capital requirements. The loans' balance as of the reporting date amounted to AED 478.7 million (2018: AED 114.1 million). Interest on these loans is calculated on a monthly basis. The loan balances are paid in monthly instalments, over periods ranging from one month to five years, until full settlement.

The Group has obtained banking facilities against the following securities:

1. Assignment of insurance policies in favor of banks amounting to AED 153 million.
2. Pledge of the Group's shares in its associate (note 11).
3. Maintenance of certain financial ratios as agreed with the respective banks.

Some of the Group's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Group did not meet the tangible net worth ratio as required in the contract with a local bank with outstanding balance of AED 40.6 million. Due to this breach of the covenant, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount. It also entitles another local bank to request for repayment on another facility amounting to AED 153.4 million (because of cross default). However, both of these loans have been rescheduled in year 2020 and waiver for debt covenants has been obtained in 2020. Further, payment terms have been extended further from the due dates by respective banks. The outstanding balance is presented as a current liability as at 31 December 2019.

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| USD | **153.0** | 428.6 |
| AED | **736.7** | 331.8 |
| Euro | **13.1** | 41.4 |
| | **902.8** | 801.8 |

The Group has 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. The loan is repayable in 72 equal monthly installments starting from 31 January 2020.

**25. BANK & OTHER BORROWINGS (continued)**

c) 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.

Movement in borrowings is as follows

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| At 1 January | **801.8** | 909.4 |
| Less: loans repaid during the year | **(359.9)** | (393.3) |
| Add: new drawdowns | **462.0** | 285.7 |
| Less: exchange loss | **(1.1)** | - |
| At 31 December | **902.8** | 801.8 |

**26. TRADE PAYABLES AND ACCRUALS**

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Accounts payable | **109.9** | 157.4 |
| Commissions payable (note 4) | **52.5** | 60.7 |
| Accrued expenses | **11.4** | 26.4 |
| Leave salary and air passage | **16.5** | 20.8 |
| Unclaimed dividend | **17.7** | 18.0 |
| Rebate and accruals | **7.9** | 9.3 |
| Refund liabilities (note 4) | **85.5** | 32.5 |
| Due to a related party (note 29 (b)) | **3.5** | 3.1 |
| Advances from customers (note 4) | **5.6** | - |
| Others | **25.0** | 21.7 |
| | **335.5** | 349.9 |
| Less: trade payables and accruals attributable to liability directly associated to assets held for sale (note 12) | **(24.5)** | - |
| | **311.0** | 349.9 |

**27. 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 for the year ended 31 December 2019 was AED 267.2 million which will be realised in the income statement upon fulfilment of bonus goods obligations to the customers.

## 28. INCOME TAX

| | *2019*<br>***AED millions*** | *2018*<br>*AED millions* |
|---|---|---|
| **Current income tax** | | |
| Current year | **1.0** | 1.6 |
| **Deferred tax** | | |
| Current year credit | **3.0** | 1.1 |
| Total income tax credit reported in the consolidated statement of profit or loss | **2.0** | 0.5 |

Component of deferred tax are as follows:

| | ***2019***<br>***AED millions*** | *2018*<br>*AED millions* |
|---|---|---|
| Difference in accounting and tax base of intangible assets | **17.7** | - |
| **Deferred tax liability** | **4.0** | - |
| Carry forward losses | **19.7** | 6.3 |
| **Deferred tax assets** | **3.9** | 1.3 |
| **Total deferred tax liabilities, net** | **(0.1)** | 1.3 |

## 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 it's Board of Directors.

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

***(a) Due from a related party***

| | ***2019***<br>***AED millions*** | *2018*<br>*AED millions* |
|---|---|---|
| Planet Pharmacies L.L.C. (Associate) (note 18) | **266.6** | 354.7 |

***(b) Due to a related party***

| | ***2019***<br>***AED millions*** | *2018*<br>*AED millions* |
|---|---|---|
| Majan Printing and Packaging Company L.L.C. (note 26) | **3.5** | 3.1 |
| Loan from a shareholder | **150.0** | **-** |

During the year, the Group obtained a loan from a shareholder amounting to AED 150 million, the loan is secured through pledge of moveable assets of the Parent Company and carries interest at EIBOR+3%. The loan is repayable in full on 25 June 2020.

## 29. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

**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.

### *(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:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Sales to associate | **20.9** | 128.6 |
| Purchases from affiliates | **4.5** | 9.5 |
| Finance cost payable to a shareholder | **1.2** | - |

### *(d) Compensation of key management personnel of the Group*

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

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Short-term benefits | **4.7** | 5.8 |
| Employees' end of service benefits | **0.1** | 0.4 |
| Board of Directors' remuneration | **-** | 5.1 |
| | **4.8** | 11.3 |

## 30. COMMITMENTS AND CONTINGENT LIABILITIES

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Capital Commitments | **13.2** | 35.2 |
| Letters of Credit | **2.2** | 12.3 |
| Letters of guarantee | **48.5** | 56.5 |

## 31. DIVIDENDS

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

## 32. 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.

**32. SEGMENT INFORMATION (continued)**

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.

| | ***2019*** | | | | *2018* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Manufacturing AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** | *Manufacturing AED millions* | *Investments AED millions* | *Other segments AED millions* | *Total AED millions* |
| Segment revenue | **301.5** | **-** | **-** | **301.5** | 719.8 | - | - | 719.8 |
| Segment result | **(482.6)** | **3.2** | **(32.6)** | **(512.0)** | (594.8) | 0.5 | (22.8) | (617.1) |
| Depreciation expense | **82.3** | **-** | **-** | **82.3** | 84.6 | - | - | 84.6 |
| Share of associate's profit | **-** | **(19.2)** | **-** | **(19.2)** | - | 15.3 | - | 15.3 |

| | ***2019*** | | | | *2018* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Manufacturing AED millions*** | ***Investments AED millions*** | ***Other segments AED millions*** | ***Total AED millions*** | *Manufacturing AED millions* | *Investments AED millions* | *Other segments AED millions* | *Total AED millions* |
| Segment assets | **2,105.0** | **286.6** | **58.8** | **2,450.4** | 2,499.6 | 305.0 | 87.8 | 2,892.4 |
| Segment liabilities | **669.6** | **-** | **902.8** | **1,572.4** | 710.10 | - | 801.8 | 1,511.9 |

**32. 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.

| | ***2019*** | | | |
|---|---|---|---|---|
| | ***Total AED millions*** | ***UAE AED millions*** | ***Saudi Arabia AED millions*** | ***Others AED millions*** |
| Non-current assets | | | | |
| Property, plant and equipment | **1,014.7** | **761.6** | **247.0** | **6.1** |
| Intangible assets | **20.1** | **3.3** | **-** | **16.8** |
| Revenue | **301.5** | **9.1** | **1.2** | **291.2** |

| | *2018* | | | |
|---|---|---|---|---|
| | *Total AED millions* | *UAE AED millions* | *Saudi Arabia AED millions* | *Others AED millions* |
| Non-current assets | | | | |
| Property, plant and equipment | 1,126.4 | 842.1 | 259.1 | 25.2 |
| Intangible assets | 43.6 | 4.1 | - | 39.5 |
| Revenue | 719.8 | 146.8 | 77.0 | 496.0 |

The Group's sales to top 2 customers individually are more than 10% of the total external sales. Total amount of sales for the year ended 31 December 2019 to these customers amounts to AED 113.3 million (2018: AED 305.0 million). These revenues are included under manufacturing segment. Included under "others" category within the intangibles amounting to AED 21.2 million (2018: AED 23.9 million) in Egypt. There are no other non-current assets or revenue included in "Others" which are more than 10% of the total segment non-current assets or total revenue.

**33. 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 2019 and 2018.

**33. RISK MANAGEMENT (continued)**

**Market risk (continued)**
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 2019 and 2018.

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 2019. The effect of a decrease in interest rates is expected to be equal and opposite to the effect of the increases as shown below:

| | *Increase/ decrease in basis points* | *Effect on profit for the year AED* |
|---|---|---|
| **2019** | | |
| | **+50** | **4.5** |
| | **-50** | **(4.5)** |
| 2018 | | |
| | +50 | 4.0 |
| | -50 | (4.0) |

**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.

**33. RISK MANAGEMENT (continued)**

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

| | ***2019*** | | |
|---|---|---|---|
| | ***Gross value AED millions*** | ***Allowance for expected credit losses AED millions*** | ***Expected credit loss (ECL)*** |
| Unsecured trade receivables | **639.3** | **2.8** | 0.43% |
| Specific provision for receivables | **413.1** | **413.1** | 100% |
| | **1,052.4** | **415.9** | |

| | *2018* | | |
|---|---|---|---|
| | *Gross value AED millions* | *Allowance for expected credit losses AED millions* | *Expected credit loss (ECL)* |
| Unsecured trade receivables | 903.4 | 5.4 | 0.6% |
| Specific provision for receivables | 414.2 | 414.2 | 100% |
| | 1,317.6 | 419.6 | |

*Financial instruments and cash deposit*
Credit risk from balances with banks and other financial institutions is managed by the Group by investing surplus funds only with approved and reputable counterparties and within credit limits assigned to each counterparty. Bank deposits, and term deposits are limited to high-credit-quality financial institutions. The table below presents an analysis of cash and bank balances by rating agency designation at the end of reporting period based on Moody's ratings or its equivalent for the main banking relationships:

| ***Cash and cash equivalents*** | ***External rating*** | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|---|
| Counterparty 1 | A1 | - | 7.3 |
| Counterparty 2 | A2 | **16.6** | 0.9 |
| Counterparty 3 | Aa2 | **0.6** | - |
| Counterparty 4 | A3 | - | 1.1 |
| Counterparty 5 | Aa3 | **0.2** | 15.1 |
| Counterparty 6 | B1 | **0.8** | 0.8 |
| Counterparty 7 | B3 | - | 4.2 |
| Counterparty 8 | Ba2 | **2.1** | 15.8 |
| Counterparty 9 | Baa2 | **4.9** | 15.8 |
| Counterparty 11 | Ba3 | **0.9** | 3.6 |
| Others | Unrated | **31.2** | 35.2 |
| | | **57.3** | 84.0 |

**33. RISK MANAGEMENT (continued)**

**Credit risk (continued)**

*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.

**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:

***At 31 December 2019***

| | ***Less than 1 year AED In millions*** | ***1 to 5 years AED In millions*** | ***Total AED In millions*** |
|---|---|---|---|
| Trade accounts payable | **328.6** | **-** | **328.6** |
| Bank borrowings | **690.3** | **262.5** | **952.8** |
| | **1,018.9** | **262.5** | **1,281.40** |

*At 31 December 2018*

| | *Less than 1 year AED In millions* | *1 to 5 years AED In millions* | *Total AED In millions* |
|---|---|---|---|
| Trade accounts payable | 325.4 | - | 325.4 |
| Bank borrowings | 820.9 | 17.7 | 838.6 |
| | 1,146.3 | 17.7 | 1,164.0 |

**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.

**33. RISK MANAGEMENT (continued)**

**b) Foreign currency risk (continued)**

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.

| | *Balance receivable/ (payable)* | *Increase in exchange rate to the AED* | *Effect on profit AED m* |
|---|---|---|---|
| ***2019*** | | | |
| **Euro** | **(12.0)** | **+5%** | **(0.6)** |
| | | **-5%** | **0.6** |
| **EGP** | **49.5** | **+5%** | **1.9** |
| | | **-5%** | **(1.9)** |
| *2018* | | | |
| Euro | (40.5) | +5% | (1.9) |
| | | -5% | 1.9 |
| EGP | 49.2 | +5% | 2.3 |
| | | -5% | (2.3) |

**c) Price risk**

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values ofthe 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.

**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 gearing ratio at the year end was as follows:

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| Bank borrowings | **902.8** | 801.8 |
| Less: cash and cash equivalents | **(58.8)** | (87.8) |
| Net debt | **844.0** | 714.0 |
| Total equity | **878.0** | 1,380.5 |
| Net debt to equity ratio (times) | **1.0** | 0.5 |

## 34. 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 2018.

*Fair value of the Group's financial assets that are measured at fair value on recurring basis*
Some of the Group's financial assets are measured at fair value at the end of the reporting period.

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

| | ***Fair Value as at*** | | | | | |
|---|---|---|---|---|---|---|
| ***Financial assets*** | ***31 December 2019 AED millions*** | *31 December 2018 AED millions* | ***Fair value hierarchy*** | ***Valuation techniques and key inputs*** | ***Significant unobservable input*** | ***Relationship of unobservable inputs to fair value*** |
| 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) | Discount rate, terminal growth rate | Refer note 17 |
| Quoted equity investments | **2.6** | 1.8 | Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities | None | NA |
| | **22.1** | 21.3 | | | | |

## 34. FAIR VALUE MEASUREMENTS (continued)

*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:

| *Disposal Group* | *Fair Value as at* | | *Fair Value hierarchy* | *Valuation techniques and key inputs* | *Significant unobservable input* | *Relationship of unobservable inputs to fair value* |
|---|---|---|---|---|---|---|
| | ***2019 AED million*** | *2018 AED million* | | | | |
| Julphar Bangladesh | **33.0** | - | 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) | None | NA |

*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

## 35. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | ***1 January 2019 AED millions*** | ***Cash inflows AED millions*** | ***Cash outflows AED millions*** | ***Other changes AED millions*** | ***31 December 2019 AED millions*** |
|---|---|---|---|---|---|
| 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** |

| | *1 January 2018 AED* | *Cash inflows AED* | *Cash outflows AED* | *Other changes AED* | *31 December 2018 AED* |
|---|---|---|---|---|---|
| Bank borrowings | 895.9 | 40.0 | (393.3) | - | 542.6 |
| Bank overdraft | 13.5 | 245.7 | - | - | 259.2 |
| | 909.4 | 285.7 | (393.3) | - | 801.8 |

## 36. 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 interest:**

| *Name* | *Place of incorporation and operation* | ***2019 Percentage of ownership*** | *2018 Percentage of ownership* |
|---|---|---|---|
| Julphar Pharmaceuticals PLC | Ethiopia | **55%** | 55% |
| Julphar Saudi Arabia | Saudi Arabia | **51%** | 51% |

| | ***2019 AED millions*** | *2018 AED millions* |
|---|---|---|
| **Accumulated balances of material non-controlling interest:** | | |
| Julphar Pharmaceuticals PLC | **10.4** | 10.9 |
| Julphar Saudi Arabia | **142.3** | 121.6 |
| **Profit / (loss) allocated to material non-controlling interest:** | | |
| Julphar Pharmaceuticals PLC | **1.1** | 1.7 |
| Julphar Saudi Arabia | **(6.4)** | (5.0) |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

| | ***2019*** | | *2018* | |
|---|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | ***Julphar Saudi Arabia AED millions*** | *Julphar Pharmaceuticals PLC AED millions* | *Julphar Saudi Arabia AED millions* |
| **Summarised statement of profit or loss** | | | | |
| Revenue from contracts with customers | **14.3** | **0.2** | 16.4 | - |
| Cost of sales | **(9.3)** | **(0.1)** | (9.8) | - |
| Selling, distribution and administrative expenses | **(1.7)** | **(26.4)** | (1.3) | (10.3) |
| Other income | **0.1** | **-** | - | - |
| **Profit/(loss) before tax** | **3.4** | **(26.3)** | 5.3 | (10.3) |
| Income tax | **(1.0)** | **2.6** | (1.6) | 1.3 |
| **Profit/(loss) for the year** | **2.4** | **(23.7)** | 3.7 | (9.0) |
| **Total comprehensive income/(loss) for the year** | **2.4** | **(23.7)** | 3.7 | (9.0) |
| Attributable to non-controlling interests | **1.1** | **11.6** | 1.7 | (4.5) |

### 36. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

| | ***2019*** | | *2018* | |
|---|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | ***Julphar Saudi Arabia AED millions*** | *Julphar Pharmaceuticals PLC AED millions* | *Julphar Saudi Arabia AED millions* |
| **Summarised statement of financial position** | | | | |
| Property, plant and equipment (non-current assets) | **6.0** | **259.4** | 7.3 | 253.1 |
| Other assets (non-current assets) | **-** | **18.3** | - | 1.3 |
| Deferred tax asset (non-current asset) | - | **3.9** | **-** | |
| Inventories (current assets) | **4.5** | **2.4** | 11.8 | - |
| Trade and other receivables (current assets) | **9.0** | **3.0** | 10.0 | 1.5 |
| Bank balances and cash (current assets) | **16.3** | **2.3** | 11.2 | 3.3 |
| Trade payables and other accruals (current liabilities) | **(12.7)** | **(9.4)** | (16.0) | (11.1) |
| **Total equity** | **23.1** | **279.9** | 24.3 | 248.1 |
| Attributable to: | | | | |
| Equity holders of the Parent | **12.7** | **142.8** | 13.4 | 126.5 |
| Non-controlling interest | **10.4** | **137.2** | 10.9 | 121.6 |

| | ***2019*** | | *2018* | |
|---|---|---|---|---|
| | ***Julphar Pharmaceuticals PLC AED millions*** | ***Julphar Saudi Arabia AED millions*** | *Julphar Pharmaceuticals PLC AED millions* | *Julphar Saudi Arabia AED millions* |
| **Summarised statement of cash flow** | | | | |
| Operating | **7.6** | **(30.4)** | 0.6 | (8.5) |
| Investing | **(0.4)** | **(26.1)** | (0.6) | (44.9) |
| Financing | **(0.7)** | **55.1** | - | 51.1 |

### 37. COMPARATIVE INFORMATION

Other than the effect of the discontinued operation disclosed in note 12, certain other corresponding figures for previous year have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported loss or shareholder’s equity.

These changes have been made to improve the quality of information presented.

### 38. SUBSEQUENT EVENTS

Other than the events disclosed note 2 and note 25 to 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.