# UNITED FOODS COMPANY (PSC) AND ITS SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2021**

الأغذية المتحدة
United Foods

## DIRECTORS' REPORT

The Directors are pleased to present their report together with audited consolidated financial statements of United Foods Company (PSC) and its subsidiaries (the "Company") for the year ended 31 December 2021.

### Review of the activities

Despite 2021, being another challenging year globally with a very competitive business environment for the FMCG sector from the continuing pandemic and related inflationary pressure exacerbated by unprecedented supply chain constraints, the Company delivered strong 24% growth in Gross Sales Revenue versus 2020. Moreover, 2021 witnessed record spike in global edible oil costs which resulted in dilution of our margins, however we still delivered a healthy Gross Profit of AED 68.9M.

Although these challenges impacted our manufactured products volumes, expansion in distribution of other food products and increase in net sales price realization resulted in substantially increasing the sales revenue in local markets. Further, geopolitical headwinds in the region and escalation in transportation costs and import duties impacted our Export volumes.

In September 2021, the company completed 100% acquisition of Stratus General Trading LLC and PAL Foodstuff & Beverages Trading LLC in line with our growth strategy. We are already witnessing the benefits of this acquisition for the company.

The Company continued to benefit from the effective implementations of cost control, efficiency enhancements, process automations and development of cost effective and healthy recipes which were instrumental in delivering Net Profit of AED 8.7M in 2021 in spite of these external challenging factors.

**The Company will remain focused to capitalize on the distribution growth potential in UAE by diversifying and expanding the product portfolio, pursuing strategic acquisition opportunities and exploring new markets.**

### Results

The Company recorded turnover before discounts and marketing expenses of AED 533,633,925, an increase of 24% over 2020 (2020: AED 429,256,337) with a net profit of AED 8,760,994 [2020: AED 38,765,062 (Including AED 10,572,453 for gain on sale of investment in associate)].

ISO 22000 BUREAU VERITAS Certification
HACCP BUREAU VERITAS Certification

UNITED FOODS COMPANY (PJSC)
PO Box 5836, Dubai, United Arab Emirates
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Fax: +971 4 338 1987
www.unitedfoods.ae

شركة الأغذية المتحدة (ش.م.ع.)
ص.ب ٥٨٣٦، دبي، الإمارات العربية المتحدة
هاتف: ٠٠٩٧١٤٥٠٦٣٨٠٠
فاكس: ٠٠٩٧١٤٣٣٨١٩٨٧

الأغذية المتحدة
United Foods

## DIRECTORS' REPORT (continued)

| | *2021* *AED* |
|---|---|
| Retained earnings balance as at 1 January 2021 | 185,980,889 |
| Profit for the year 2021 | 8,760,994 |
| Profit available for appropriation as at 31 December 2021 | 194,741,883 |
| Appropriations: | |
| Dividends declared and paid (relating to 2020) | (19,662,500) |
| Directors' remuneration | (725,000) |
| Retained earnings balance as at 31 December 2021 | 174,354,383 |

20% cash dividend totaling to AED 6,050,000 is proposed relating to the year 2021 subject to approval by the Shareholders in the Annual General Meeting.

### Directors

The list of Directors of the Company is as follows:

| | |
|---|---|
| Mr. Ali Bin Humaid Ali Abdalla Al Owais | - Chairman |
| Mr. Mohamed Abdel Aziz Ali Abdalla Al Owais | - Executive Vice Chairman |
| Mr. Mohamed Salim Rashid Abdalla Al Owais | - Deputy |
| Mr. Ahmed Abdulla Sultan Abdulla Al Owais | - Director |
| Mr. Mohamed Ali Nasir Abdalla Al Owais | - Director |
| Mr. Abdulla Mohamed Rashid Alhuraiz | - Director |
| Mr. Ahmed Ali Ahmed Salim Alowais | - Director |
| Mr. Hashem Salem Hashem Salem Eldash | - Director |

**For and on behalf of the Board**

08/02/2022

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Building a better working world

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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FOODS COMPANY (PSC)

## Report on the audit of the consolidated financial statements

*Opinion*
We have audited the consolidated financial statements of United Foods Company (PSC) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies .

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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

*Other Matter*
The financial statements of the Company as at and for the year ended 31 December 2020 were audited by another auditor who issued an unmodified audit report on those financial statements on 8 February 2021.

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FOODS COMPANY (PSC) (continued)**

**Report on the audit of the consolidated financial statements (continued)**

*Key audit matters (continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Revenue recognition*** | |
| - Revenue is considered as a material and an important determinant of the Group's performance and profitability. This gives rise to the inherent risk that revenue recognised might be overstated in order to present better performance or profitable results for the year. The Group generates revenue from sale of goods when control of the goods are transferred to customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods (refer note 2.3 to the financial statements for the revenue recognition policy). Given the magnitude of the amount and the inherent risk of revenue overstatement, we consider revenue recognition to be a key audit matter. | To address the above risk, we performed the following procedures among others:<br>- Tested the design and operating effectiveness of controls in respect of the Group's revenue and accounts receivable processes;<br>- Performed substantive testing and analytical procedures to test the reasonableness and completeness of the underlying calculation of the accruals for rebates and discounts.<br>- Performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to previous year;<br>- Performed sales cut-off procedures and selected a sample of invoices before and after year-end to test whether sales are recorded in the appropriate period;<br>- Inquired of management at different levels and departments of their knowledge of fraud risk and actual fraud instances; and<br>- Performed journal entries testing for accounts related to identified risks of material misstatement and verified them with supporting documents. |

**Report on the audit of the consolidated financial statements (continued)**

*Key audit matters (continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Existence, collectability of trade receivable balance, and adequacy of provision for expected credit losses*** | |
| As at 31 December 2021, the Group had trade receivables of AED 97.7 million, before provisions for expected credit losses of AED 4.7 million (refer note 10 to the consolidated financial statements), which is significant to the Group as it represents approximately 25% of the total assets of the Group. In addition, the consumer product industry continues to be impacted by macroeconomic challenges which increases the risk of the collectability of trade receivables.<br><br>There is a risk that trade receivables are overstated and provision for expected credit losses is understated.<br><br>The determination as to whether a trade receivable is collectable involves management judgement. The specific factors that management considers include the age of the balance, location of the customer, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of the counterparty. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's overall balance. We focused on this area because it requires a high level of management judgement and due to the materiality of the amounts involved. | To address the above risk, we performed the following procedures among others:<br>- Requested direct confirmations for a selected sample of customers of the Group to confirm their respective outstanding balances. In the absence of reply from customers, we performed the alternative procedures by reference to invoice testing and subsequent cash collections from the respective customers;<br><br>- Evaluated the management's assessment of recoverability of accounts receivable through detailed testing and analysis of ageing of accounts receivable;<br><br>- Performed an overall assessment of adequacy of the expected credit losses provision to determine if they were reasonable by considering the Group's portfolio, customer base, credit control measures and macroeconomic environment and performing analytical procedures by ageing buckets, category of customers;<br><br>- Evaluated the reasonableness of the key judgements and estimates relating to calculation of probability of default and forward looking factor made in the expected credit loss model by reviewing the flow rate method applied and discussions with the management;<br><br>- Evaluated the completeness, accuracy and relevance of the data used in the expected credit loss model by testing the ageing of receivables and reviewing credit insurance policy and checked the mathematical accuracy of the calculations; and<br><br>- Inquired of management about impaired and disputed accounts receivable with no subsequent collections and management's plan for recovering these receivables and related provisions for expected credit losses. |

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FOODS COMPANY (PSC) (continued)**

**Report on the audit of the financial statements (continued)**

*Key audit matters (continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Existence of inventories and adequacy of provision for slow moving Inventories*** | |
| - As at 31 December 2021, the gross inventory balance amounts to AED 104 million, before the provision for slow moving inventories of AED 0.76 million (refer note 9 to the consolidated financial statements), which were significant to the Group as it represents approximately 26.8% of the total assets of the Group. Due to the significance of the inventory balance and related estimation involved, this is considered as a key audit matter. | To address the above risk, we performed the following procedures among others:<br><br>- Attended and observed physical inventory count performed by the store and finance department as at the year end;<br><br>- Assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items by discussions and enquiry with the management and comparing with prior period;<br><br>- Tested the reliability of the underlying data used by management to calculate the inventory obsolescence provisions by tracing the total balance to the general ledger;<br><br>- Performed net realisable value test to ensure that inventories are measured at the lower of cost and net realisable value.<br><br>- Tested the inventories-in-transit from purchase orders and related shipping documents to ensure the risks and rewards relating to inventories are transferred to the Group based on incoterms per shipping documents. |

## Report on the audit of the financial statements (continued)

*Other information*

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2021 Annual Report after the date of our auditors' report. Management is responsible for the other information.

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

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

*Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*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.

## Report on the audit of the consolidated financial statements (continued)

*Auditor's responsibilities for the audit of the consolidated financial statements (continued)*
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FOODS COMPANY (PSC) (continued)**

**Report on other legal and regulatory requirements**

Further, as required by the UAE Federal Law No. (2) of 2015 (as amended), we report that, for the year ended 31 December 2021:

i) the Company has maintained proper books of account;

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

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015 (as amended);

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

v) investments in shares and stocks during the year ended 31 December 2021 are disclosed in note 8 and 9 to the consolidated financial statements;

vi) note 23 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 financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would have a material impact on its activities or its financial position; and

viii) the Company made no social contributions during the year.

For Ernst & Young

Signed by:
Ashraf Abu Sharkh
Partner
Registration No: 690

14 February 2022

Dubai, United Arab Emirates

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

| | *Notes* | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|---|
| Revenue from contacts with customer, gross | | **533,633,925** | 429,256,337 |
| Less: Discounts and marketing expenses | | **(18,258,024)** | (17,838,291) |
| **Revenue from contracts with customers, net** | 3 | **515,375,901** | 411,418,046 |
| Cost of sales | | **(446,419,029)** | (334,679,356) |
| **GROSS PROFIT** | | **68,956,872** | 76,738,690 |
| Selling and distribution expenses | | **(36,109,679)** | (33,947,567) |
| General and administrative expenses | | **(24,907,974)** | (16,908,861) |
| Finance costs | | **(961,685)** | (912,362) |
| Gain on sale of investment in an associate | 9.1 | **-** | 10,572,453 |
| Other income, net | 12 & 5 | **1,783,460** | 3,222,709 |
| **PROFIT FOR THE YEAR** | 4 | **8,760,994** | 38,765,062 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **8,760,994** | 38,765,062 |
| **Earnings per share** | | | |
| Earnings per share basic - in AED | 18 | **0.27** | 1.16 |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

| | *Note* | ***2021 AED*** | *2020 AED* |
|---|---|---|---|
| **Profit for the year** | | **8,760,994** | 38,765,062 |
| **Other comprehensive income/(loss)** | | | |
| *Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent years:* | | | |
| Change in fair value of investment securities measured at FVOCI, equity securities | 9 | **966,830** | (115,965) |
| **Other comprehensive profit/ (loss)** | | **966,830** | (115,965) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **9,727,824** | 38,649,097 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **9,727,824** | 38,649,097 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

| | Notes | *2021* *AED* | *2020* *AED* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **86,982,728** | 95,951,200 |
| Right-to-use assets | 6 | **17,739,476** | 19,848,951 |
| Intangible assets | 7 | **920,402** | 214,952 |
| Goodwill | 8 | **1,321,304** | - |
| Investment securities | 9 | **1,950,812** | 983,982 |
| | | **108,914,722** | 116,999,085 |
| **Current assets** | | | |
| Inventories | 10 | **104,766,259** | 61,512,632 |
| Trade and other receivables | 11 | **105,860,579** | 77,855,187 |
| Amounts due from related parties | 23 | **602,070** | 139,335 |
| Bank balances and cash | 12 | **52,267,356** | 115,015,279 |
| | | **263,496,264** | 254,522,433 |
| **TOTAL ASSETS** | | **372,410,986** | 371,521,518 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 13 | **30,250,000** | 30,250,000 |
| Statutory reserve | 14 | **15,125,000** | 15,125,000 |
| Regular reserve | 15 | **15,125,000** | 15,125,000 |
| General reserve | 16 | **65,314,980** | 65,314,980 |
| Fair value reserve | 17 | **833,433** | (133,397) |
| Retained earnings | | **174,354,383** | 185,980,889 |
| **Total equity** | | **301,002,796** | 311,662,472 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | 19 | **8,285,260** | 7,804,771 |
| Lease liabilities | 20 | **11,216,471** | 12,717,526 |
| | | **19,501,731** | 20,522,297 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **45,498,979** | 37,558,345 |
| Lease liabilities | 20 | **2,036,582** | 1,778,404 |
| Bank overdrafts | 22 | **4,370,898** | - |
| | | **51,906,459** | 39,336,749 |
| **Total liabilities** | | **71,408,190** | 59,859,046 |
| **TOTAL EQUITY AND LIABILITIES** | | **372,410,986** | 371,521,518 |

Ali Bin Humaid Al Owais
Chairman
08/02/2022

Mohammed Abdel Aziz Ali Abdalla Al Owais
Executive Vice Chairman
08/02/2022

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | *Share capital AED* | *Statutory reserve AED* | *Regular reserve AED* | *General reserve AED* | *Fair value reserve AED* | *Retained earnings AED* | *Total AED* |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2021 | 30,250,000 | 15,125,000 | 15,125,000 | 65,314,980 | (133,397) | 185,980,889 | 311,662,472 |
| Profit for the year | - | - | - | - | - | 8,760,994 | 8,760,994 |
| Other comprehensive income | - | - | - | - | 966,830 | - | 966,830 |
| Total comprehensive income for the year | - | - | - | - | 966,830 | 8,760,994 | 9,727,824 |
| Dividends declared and paid (Note 13) | - | - | - | - | - | (19,662,500) | (19,662,500) |
| Directors' remuneration (Note 23) | - | - | - | - | - | (725,000) | (725,000) |
| **Balance as at 31 December 2021** | **30,250,000** | **15,125,000** | **15,125,000** | **65,314,980** | **833,433** | **174,354,383** | **301,002,796** |

The attached notes 1 to 28 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2021

| | *Share capital AED* | *Statutory reserve AED* | *Regular reserve AED* | *General reserve AED* | *Fair value reserve AED* | *Retained earnings AED* | *Total AED* |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2020 | 30,250,000 | 15,125,000 | 15,125,000 | 65,314,980 | (404,786) | 159,889,472 | 285,299,666 |
| Impact of sale of an associate (Note 9.1) | - | - | - | - | 380,160 | 108,549 | 488,709 |
| Impact of sale of investment securities (Note 9) | - | - | - | - | 7,194 | (7,194) | - |
| Profit for the year | - | - | - | - | - | 38,765,062 | 38,765,062 |
| Other comprehensive loss | - | - | - | - | (115,965) | - | (115,965) |
| Total comprehensive (loss)/income for the year | - | - | - | - | (115,965) | 38,765,062 | 38,649,097 |
| Dividends declared and paid (Note 13) | - | - | - | - | - | (9,075,000) | (9,075,000) |
| Directors' remuneration (Note 23) | - | - | - | - | - | (3,700,000) | (3,700,000) |
| Balance as at 31 December 2020 | 30,250,000 | 15,125,000 | 15,125,000 | 65,314,980 | (133,397) | 185,980,889 | 311,662,472 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Notes | **2021 AED** | 2020 AED |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **8,760,994** | 38,765,062 |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | 5 | **11,280,534** | 11,422,102 |
| Depreciation on right-to-use assets | 6 | **1,810,313** | 1,771,715 |
| Amortisation of intangible assets | 7 | **297,903** | 182,340 |
| Gain on sale of investment securities | 8 | **-** | (82) |
| Gain on sale of investment in an associate | 9.1 | **-** | (10,572,453) |
| Gain on disposal of property, plant and equipment | | **(69,790)** | (58,126) |
| Finance cost | | **961,685** | 912,362 |
| Provision for employees' end of service benefits | 19 | **1,286,649** | 1,366,798 |
| (Reversal)/charge for provision for expected credit losses | 11 | **(249,313)** | 1,368,287 |
| Charge/(reversal) of provision for slow moving inventories | 10 | **123,552** | (47,688) |
| Provision for legal case | 4 | **7,140,723** | - |
| Termination of leases | | **15,397** | - |
| | | **31,358,647** | 45,110,317 |
| Working capital changes: | | | |
| Inventories | | **(42,298,352)** | (16,199,766) |
| Trade and other receivables | | **(26,240,118)** | (814,669) |
| Trade and other payables | | **(345,577)** | (1,318,964) |
| Amounts due from related parties | | **(462,735)** | (80,336) |
| Cash (used in) / generate from operations | | **(37,988,135)** | 26,696,582 |
| Employees' end of service benefits paid | 19 | **(1,002,458)** | (618,909) |
| **Net cash (used in) / generated from operating activities** | | **(38,990,593)** | 26,077,673 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 5 | **(2,901,428)** | (2,727,444) |
| Refund against purchase of property, plant and equipment | 5 | **932,200** | - |
| Purchase of intangible assets | 7 | **(918,839)** | - |
| Proceeds from disposal of property, plant and equipment | | **238,225** | 58,126 |
| Proceeds from disposal of investment in an associate | 9.1 | **-** | 20,059,639 |
| Purchase of investment securities | 9 | **-** | (859,733) |
| Proceeds from disposal of investment securities | | **-** | 11,935 |
| Acquisition of subsidiaries, net of cash acquired | 8 | **(3,903,245)** | - |
| Net change in bank deposits | 12 | **(500,000)** | 1,050,000 |
| **Net cash (used in) / generated from investing activities** | | **(7,053,087)** | 17,592,523 |
| **FINANCING ACTIVITIES** | | | |
| Payment of lease liabilities | 19 | **(1,680,383)** | (2,826,310) |
| Finance costs paid | | **(232,258)** | (179,514) |
| Dividends paid | 13 | **(19,662,500)** | (9,075,000) |
| **Cash used in financing activities** | | **(21,575,141)** | (12,080,824) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **(67,618,821)** | 31,589,372 |
| Cash and cash equivalents at 1 January | | **114,515,279** | 82,925,907 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 12 | **46,896,458** | 114,515,279 |

The attached notes 1 to 28 form part of these consolidated financial statements.

## 1 ACTIVITIES

United Foods Company (PSC) (the "Company") is a Public Shareholding Company, incorporated on 1 November 1976 by a Decree issued by His Highness, The Ruler of Dubai. On 27 June 1994, the Company amended its status to a public shareholding company to comply with the provisions of the applicable UAE Federal Law at the time.

The Company's shares are listed on the Dubai Financial Market (DFM) since July 2006.

The Company is primarily engaged in the manufacturing, processing and marketing of vegetable ghee, cooking oil, margarine, butter products and fat including trading of other food products. The registered address of the Company is P.O. Box 5836, Dubai, UAE.

During the current year, the Company has acquired 100% controlling interest in Stratus General Trading LLC and PAL Foodstuff & Beverages Trading LLC (Refer to note 8).

The Company and its following subsidiaries form the "Group" and together referred as the "Group" in these consolidated financial statements. The subsidiaries included in the consolidated financial statements, principal activities and legal and beneficial ownership of the subsidiaries are set out below:

| ***Name of the subsidiary*** | ***Principal activity*** | ***Country of incorporation*** | ***Ownership% 2021*** | *Ownership% 2020* |
|---|---|---|---|---|
| Stratus General Trading LLC | General Trading -Wholesalers | U.A. E | **100%** | - |
| PAL Foodstuff & Beverages Trading LLC | Food and Beverages Trading | U.A. E | **100%** | - |

After these acquisitions, this is the first set of consolidated financial statements that have been produced and audited.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), articles of association of the Company and the applicable requirements of the UAE Federal Law No. (2) of 2015 (as amended).

The consolidated financial statements have been prepared on a historical cost basis, except for investment securities at fair value through other comprehensive income that have been measured at fair value.

The consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is also the Group's functional currency.

**Basis of consolidation**
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. 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
- 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(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

## 2.1 BASIS OF PREPARATION (continued)

**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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the consolidated 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 a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, noncontrolling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## 2.2 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 Company's financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021.

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**New standards, interpretations and amendments thereof, adopted by the Group**

**Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

**Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16**
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**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 Group 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. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, 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 IAS 1: Classification of Liabilities as Current or Non-current**
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. These amendments are not applicable to the Group.

**Reference to the Conceptual Framework – Amendments to IFRS 3**
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**
In May 2020, the IASB issued Property, plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**Standards Issued but not yet Effective (continued)**

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (continued)**
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group.

**IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

**IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

**IAS 41 Agriculture – Taxation in fair value measurements**
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

**Definition of Accounting Estimates - Amendments to IAS 8**
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**Definition of Accounting Estimates - Amendments to IAS 8 (continued)**
The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

**Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2**
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Establishment is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

All other assets are classified as non-current.

A liability is classified as current when:

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

The Group classifies all other liabilities as non-current.

**Fair value measurement**
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.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**
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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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
- 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 on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Revenue recognition**
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 generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 2.4.

*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 goods.

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 (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

*Variable consideration*
If the 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. Some contracts for the sale of goods provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

*Rights of return*
Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*Volume rebates*
The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. 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 Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates which is adjusted against accounts receivables of respective parties.

**Interest income**
Interest income is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Rental income**
Rental income on operating lease is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

**Dividend income**
Dividend income is accounted when the Group's right to receive dividend is established.

**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, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of profit or loss as incurred. Property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20 years |
| Plant, machinery and equipment | 4 to 15 years |
| Furniture, fixtures and office equipment | 4 years |
| Motor vehicles | 4 to 7 years |

Land and capital work-in-progress are not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that 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 cost to sell and their value in use. An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of profit or loss in the period the asset is derecognised.

Assets in the course of construction are carried at cost as capital work in progress, and transferred to property, plant and equipment when available for use. All costs directly attributable to brining the asset to the location and condition necessary for it to be used in the manner intended by management are included in the construction cost. No depreciation is charged on such assets until available for use.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

*Right-to-use assets*

The Group recognises right-to-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-to-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-to-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-to-use assets are depreciated on a straight-line basis over the lease term. Right-to-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, if any. 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.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the respective lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of certain stores (i.e., those 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 of office vehicles that are considered of low value (i.e., below AED 18,000). 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.

*The Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the consolidated statement of profit or loss.

**Intangible assets**

Intangible assets include acquired software.

Intangible assets acquired separately are measured on initial recognition at cost. 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 are reviewed at least at each financial year end. 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 treated as changes in accounting estimates.

The amortisation expense on intangible assets is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated on a straight line basis over the estimated useful life of 4 years to their residual values.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed 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 an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in accordance with IAS 39. Other contingent consideration not within the scope of IAS 39, it is measured at fair value at each reporting date with changes in fair value recognized in the consolidated statement of comprehensive income.

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 re-assessment 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.

**Impairment of goodwill**
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the value in use of cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Impairment of non-financial assets**
At each reporting date the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets (continued)**
Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Costs are those incurred in bringing each product to its present location and condition, as follows:

Raw materials – purchase cost on moving average basis;
Packing materials – purchase cost on moving average basis;
Spares and consumables – purchase cost on moving average basis;
Finished goods and work-in-progress – cost of direct materials and direct labour plus an appropriate share of production overheads based on normal operating capacity.

Net realisable value is based on the estimated selling price less any further costs expected to be incurred on disposal. Damaged and obsolete inventories are written off.

**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 and, 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 determined under IFRS 15. Refer to the accounting policies for revenue from contracts with customers.

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.

*Subsequent measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments-initial recognition and subsequent measurement (continued)**

**i) Financial assets (continued)**

*Subsequent measurement (continued)*

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

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

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

The Group's financial assets include bank balances and cash, trade and other receivables, and amounts due from related parties.

*Financial assets designated at fair value through OCI (equity instruments)*
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group elected to classify irrevocably its equity investments under this category.

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

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

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

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.

**2.3 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 and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group considers a financial asset in default when contractual payments are 90 days past due.

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

**ii) Financial liabilities**

*Initial recognition and measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, amount due to a related party, and lease liabilities.

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

*Trade and other payables*
Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group.

*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 profit or loss.

**iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the assets and liabilities simultaneously.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdraft.

**Investment in 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 are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise 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. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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 consolidated financial statements of the associate or joint venture 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 recognise 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 recognises the loss within 'Share of results of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises 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 the consolidated statement of profit or loss.

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

**Employees' end of service benefits**
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Contingencies and commitments**
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.

**Value added tax ("VAT")**
The Group is subject to a value added tax ("VAT") of 5% on its transactions inside UAE, and on its import of goods and services from abroad. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of sale of goods and services and reimbursable expenses inside UAE (if any) (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). The Group reports revenue net of value added tax for all the periods presented in the consolidated financial statements.

**Foreign currencies**
Transactions in foreign currencies are initially recorded by the Group at its 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.

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 gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts 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, apart from those involving estimations, which has the most significant impact on the amounts recognised in the consolidated financial statements.

*Determining method to estimate variable consideration and assessing the constraint*
Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of goods with volume rebates, the Group determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Judgements (continued)**

*Property lease classification – The* Group *as lessor*
The Group has entered into commercial property leases on a portion of its property, not classified as investment property as does not meet the criteria for investment property per IAS 40. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property, that it retains all the significant risks and rewards of ownership of the property and accounts for the contracts as operating leases.

*Significant judgement in determining the lease term of contracts with renewal options*
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms of three or more years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group included the renewal period as part of the lease term for leases of land and building due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one to three years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Group has a policy of leasing motor vehicles for not more than five years and hence not exercising any renewal options.

*Business model assessment*
Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

**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 discussed 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 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 is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventory, were AED 105,527,189 (2020: AED 62,397,114) before provisions for slow moving inventories of AED 760,930 (2020: AED 884,482). 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.

**2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Estimates and assumptions (continued)**

*Useful lives and depreciation of property, plant and equipment and intangible assets*
The management periodically reviews estimated useful lives and depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

*Leases - Estimating the incremental borrowing rate*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

*Estimating variable consideration for returns and volume rebates*
The Group estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and volume rebates. The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2021 and 2020, no material amount recognised as refund liabilities for the expected returns and volume rebates.

*Provision for expected credit losses of trade receivables and contract assets*
The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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 Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

## 3 REVENUE FROM CONTRACTS WITH CUSTOMERS, NET

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| ***Type of revenue*** | | |
| Sale of goods, gross | **533,584,300** | 429,055,476 |
| Less: Discounts and marketing expenses | **(18,258,024)** | (17,838,291) |
| Sale of goods | **515,326,276** | 411,217,185 |
| Filing services | **49,625** | 200,861 |
| | **515,375,901** | 411,418,046 |
| ***Type of revenue*** | | |
| At a point in time | **515,375,901** | 411,418,046 |
| ***Geographical market*** | | |
| United Arab Emirates | **391,173,840** | 267,746,431 |
| GCC other than UAE | **90,652,007** | 96,308,839 |
| Rest of world | **33,550,054** | 47,362,776 |
| | **515,375,901** | 411,418,046 |

The Group receives advances from is customers which are classified as contract liabilities and included under trade and other payables in Note 21. The amount billed under the contracts are recognised as trade receivables and disclosed in Note 11.

## 4 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| Inventories charged to cost of sales | **421,470,840** | 307,753,540 |
| Employee expenses | **38,148,282** | 36,862,280 |
| Rental - operating lease | **990,383** | 524,331 |
| Provision for a legal case (Note 24) | **7,140,723** | - |

Rental – operating leases expense relates to the lease contracts that 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').

During the year, a court of first instance has ordered the Group to pay an amount of AED 7.1 million under a claim by an ex-distributor. The Group filed an appeal against the court of first instance which has been rejected. The Group is the process of filing another appeal.

## 5 PROPERTY, PLANT AND EQUIPMENT

| | *Land and buildings AED* | *Plant, machinery and equipment AED* | *Furniture, fixtures and office equipment AED* | *Motor vehicles AED* | *Capital work-in-progress AED* | *Total AED* |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2021 | 92,625,438 | 172,205,707 | 5,522,665 | 13,701,977 | 2,462,216 | 286,518,003 |
| Additions | - | - | - | - | 2,901,428 | 2,901,428 |
| Disposals | - | - | - | (325,000) | - | (325,000) |
| Adjustment * | - | (932,200) | - | - | - | (932,200) |
| Acquired in business Combination (Note 8) | - | 385,105 | 80,557 | 1,026,680 | - | 1,492,342 |
| Transfers and reclassifications | 208,000 | 1,443,558 | 395,775 | 901,000 | (2,948,333) | - |
| At 31 December 2021 | **92,833,438** | **173,102,170** | **5,998,997** | **15,304,657** | **2,415,311** | **289,654,573** |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2021 | 46,927,360 | 127,319,587 | 4,822,769 | 10,725,693 | 771,394 | 190,566,803 |
| Charge for the year | 2,956,735 | 6,557,565 | 432,305 | 1,333,929 | - | 11,280,534 |
| Disposals | - | - | - | (156,565) | - | (156,565) |
| Acquired in business Combination (Note 8) | - | 261,696 | 61,595 | 657,782 | - | 981,073 |
| At 31 December 2021 | **49,884,095** | **134,138,848** | **5,316,669** | **12,560,839** | **771,394** | **202,671,845** |
| **Net carrying value** | | | | | | |
| **At 31 December 2021** | **42,949,343** | **38,963,322** | **682,328** | **2,743,818** | **1,643,917** | **86,982,728** |

| | *Land and buildings AED* | *Plant, machinery and equipment AED* | *Furniture, fixtures and office equipment AED* | *Motor vehicles AED* | *Capital work-in-progress AED* | *Total AED* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2020 | 92,625,438 | 173,229,251 | 7,442,598 | 14,020,877 | 1,011,086 | 288,329,250 |
| Additions | - | - | - | - | 2,727,444 | 2,727,444 |
| Disposals | - | (3,277,180) | (563,111) | (698,400) | - | (4,538,691) |
| Transfers and reclassifications | - | 2,253,636 | (1,356,822) | 379,500 | (1,276,314) | - |
| At 31 December 2020 | 92,625,438 | 172,205,707 | 5,522,665 | 13,701,977 | 2,462,216 | 286,518,003 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2020 | 43,973,685 | 122,889,381 | 5,800,361 | 10,248,571 | 771,394 | 183,683,392 |
| Charge for the year | 2,953,675 | 6,693,730 | 599,175 | 1,175,522 | - | 11,422,102 |
| Disposals | - | (3,277,180) | (563,111) | (698,400) | - | (4,538,691) |
| Transfers and reclassifications | - | 1,013,656 | (1,013,656) | - | - | - |
| At 31 December 2021 | 46,927,360 | 127,319,587 | 4,822,769 | 10,725,693 | 771,394 | 190,566,803 |
| Net carrying value | | | | | | |
| At 31 December 2020 | 45,698,078 | 44,886,120 | 699,896 | 2,976,284 | 1,690,822 | 95,951,200 |

## 5 PROPERTY, PLANT AND EQUIPMENT (continued)

* During the year ended 31 December 2021, the Group was awarded a refund of AED 932,200 by DEWA against initial payment for electrical installations in earlier years. The refund is accounted for as adjustment to carrying value of the related assets.

The Group's building on Sheikh Zayed Road is constructed on land for which owned rights were acquired from the Government of Dubai in 2010. The land is registered in the name of the Group. The Group's building in Jebel Ali Industrial Area is constructed on land taken on lease from the Government of Dubai.

Capital work-in-progress of AED 1,643,917 (2020: AED 1,690,822) as at 31 December 2021 pertains to the expenditures incurred for the expansion of factory and warehouse facility in Jebel Ali Industrial Area. It includes capital advances of AED 624,182 (2020: AED 117,027) as at 31 December 2021.

The Group has temporarily rented out a portion of land and building in Al Quoz and certain staff accommodation units to third party to earn rentals. During the year, the Group earned rental income amounting to AED 83,332 (2020: AED 773,971) which is included in other income presented on the face of consolidated statement of profit and loss.

The cost of fully depreciated assets still in use as at 31 December 2021 was AED 126.52 million (2020: AED 123 million). The depreciation charge for the year has been allocated as follows:

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| Cost of sales | **7,859,552** | 7,968,585 |
| Selling and distribution expenses | **2,721,944** | 2,706,057 |
| General and administrative expenses | **699,038** | 747,460 |
| | **11,280,534** | 11,422,102 |

## 6 RIGHT-TO-USE ASSETS

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| As at 1 January | **19,848,951** | 14,326,567 |
| Additions during the year | **726,820** | 7,294,099 |
| Acquired through business combination (Note 8) | **8,156** | - |
| Less: retirements during the year | **(1,034,138)** | - |
| Less: depreciation for the year | **(1,810,313)** | (1,771,715) |
| | **17,739,476** | 19,848,951 |

The Group has lease contracts for various items of land, building and motor vehicles.

## 7 INTANGIBLE ASSETS

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| Cost: | | |
| At 1 January | **2,890,429** | 2,894,229 |
| Additions | **918,839** | - |
| Acquired in business combination (Note 8) | **164,857** | - |
| Disposals | **-** | (3,800) |
| At 31 December | **3,974,125** | 2,890,429 |
| Accumulated amortisation: | | |
| At 1 January | **2,675,477** | 2,496,937 |
| Acquired in business combination (Note 8) | **80,343** | - |
| Charge for the year | **297,903** | 182,340 |
| Disposals | **-** | (3,800) |
| At 31 December | **3,053,723** | 2,675,477 |
| Net carrying amount | | |
| At 31 December | **920,402** | 214,952 |

## 8 BUSINESS COMBINATION

Effective 31 August 2021, the Company has entered into share purchase agreements to acquire 100% of voting shares of Stratus General Trading LLC ("SGT") and PAL Foodstuff & Beverages Trading LLC ("PAL"), unlisted companies incorporated and registered in United Arab Emirates. The Company has acquired SGT and PAL because these expand both its existing product portfolio and customer base in GCC region. No non-controlling interest arose from the acquisitions.

The Company has accounted for the above acquisition on provisional basis by applying the acquisition method as per IFRS 3' Business Combinations' on achieving the control and expect to finalise the acquisition accounting on finalisation of fair values of assets acquired and liabilities assumed within one year of the acquisition date.

The Group has recognised a provisional value of goodwill of AED 1,321,304. The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SGT and PAL with those of the Group. The Group intend to allocate the Goodwill on finalisation of acquisition accounting. The Group has concluded that there are no indicator of impairment of goodwill as at the reporting date.

The consolidated financial statements include the results of SGT and PAL from date of acquisition i.e. 31 August 2021 till 31 December 2021.

**8 BUSINESS COMBINATION (continued)**

***Assets acquired and liabilities assumed - SGT***

The provisional fair values of the identifiable assets and liabilities of SGT as at date of acquisition 31 August 2021 were:

| | *Provisional fair values recognised on acquisition* AED |
|---|---|
| **Assets** | |
| Property, plant and equipment (Note 5) | **474,113** |
| Intangible assets | **84,514** |
| Right-of-use assets (Note 6) | **8,156** |
| Inventories | **1,078,231** |
| Trade receivables and other receivables | **1,408,669** |
| Bank balances and cash (Note 11) | **83,029** |
| | **3,136,712** |

| | *Provisional fair values recognised on acquisition* AED |
|---|---|
| **Liabilities** | |
| Trade and other payables (Note 20) | **257,762** |
| Employees' end of service benefits | **147,547** |
| **Total liabilities** | **405,309** |
| Total identifiable net assets at fair value | **2,731,403** |
| Consideration payable by the Company to acquire 100% of equity | **3,820,000** |
| Less: fair value of net assets acquired | **(2,731,403)** |
| Goodwill | **1,088,597** |

***Consideration***

As per sale and purchase agreement, the consideration agreed was AED 4,250,000, subject to certain adjustments resulting form change in net assets of SGT from the date of sale and purchase agreement to closing date i.e. 31 August 2021, to be agreed between the parties. The Company has adjusted the consideration to AED 3,820,000 after considering the adjustments as per agreement. However, those adjustments are yet to be formally agreed with seller.

***Contribution during the period***

From the date of acquisition, SGT has contributed AED 2,574,331 of revenue and loss of AED 409,654 from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been AED 8,535,782 and the loss for the period would have been AED 1,698,630.

**8 BUSINESS COMBINATION (continued)**

***Assets acquired and liabilities assumed - PAL***

| | *Provisional Fair value recognised on acquisition* AED |
|---|---|
| **Assets** | |
| Property, plant and equipment (Note 5) | **37,157** |
| Inventories | **596** |
| Trade receivables and other receivables | **107,291** |
| Bank balances and cash (Note 11) | **98,726** |
| | **243,770** |

| | *Provisional Fair value recognised on acquisition* AED |
|---|---|
| **Liabilities** | |
| Trade and other payables (Note 20) | **162,726** |
| Employees' end of service benefits | **48,751** |
| **Total liabilities** | **211,477** |
| Total identifiable net assets at fair value | **32,293** |
| Consideration payable by the Company to acquire 100% of equity | **265,000** |
| Less: fair value of net assets acquired | **(32,293)** |
| Goodwill | **232,707** |

***Consideration***

As per sale and purchase agreements, the consideration agreed was AED 300,000, subject to certain adjustments resulting form change in net assets of PAL from the date of sale and purchase agreement to closing date i.e. 31 August 2021, to be agreed between the parties. The Company has adjusted the consideration to AED 265,000 after considering the adjustments as per agreement. However, those adjustments are yet to be formally agreed with seller.

***Contribution during the period***

From the date of acquisition, PAL has contributed AED 325,120 of revenue and loss of AED 396,098 from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been AED 1,503,001 and the loss for the period would have been AED 1,633,685.

***Analysis of cash flows on acquisitions:***

| | |
|---|---|
| Net cash acquired with the subsidiaries (included in cash flows from investing activities) | **181,755** |
| Cash paid | **(4,085,000)** |
| **Net cash flow on acquisition** | **(3,903,245)** |

**8 BUSINESS COMBINATION (continued)**

Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

| | ***Goodwill (AED)*** |
|---|---|
| **Gross carrying amount** | |
| At 1 January 2021 | - |
| Acquisition of subsidiaries during the year | |
| - SGT | **1,088,597** |
| - PAL | **232,707** |
| **At 31 December 2021** | **1,321,304** |

The Group has assessed the provisional goodwill for impairment and concluded that there are no impairment.

**9 INVESTMENT SECURITIES**

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| Quoted equity securities at GCC | | |
| Fair value through other comprehensive income | **1,950,812** | 983,982 |

The movement of investment securities during the year is as follows:

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| At 1 January | **983,982** | 252,067 |
| Additions | **-** | 859,733 |
| Disposals | **-** | (11,853) |
| Change in fair value | **966,830** | (115,965) |
| At 31 December | **1,950,812** | 983,982 |

During 2020, the Company disposed its equity securities in the Marine Terminal Operations Sector. Impact of sale of investments securities amounted to AED 7,194 reclassified from fair value reserve to retained earnings.

**9.1 INVESTMENT IN AN ASSOCIATE**

On February 2, 2020, the Company disposed 100% of its shares in Emirates Refreshments Co., an associate, for a cash consideration of AED 20,059,639. The Company recognized gain on disposal of investment in associate amounting to AED 10,572,453 recorded in the statement of profit or loss. On derecognition of the associate on February 2, 2020, amount of AED 488,709 relating to share of other comprehensive income of the associate was derecognized and reclassified from the consolidated statement of comprehensive income to the consolidated statement of profit or loss.

## 10 INVENTORIES

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| Raw materials | **68,515,474** | 36,072,776 |
| Finished goods | **20,320,752** | 16,527,884 |
| Packing materials | **2,671,403** | 2,024,723 |
| Work-in-progress | **6,422,855** | 2,968,552 |
| Spares and consumables | **2,515,843** | 2,166,258 |
| | **100,446,327** | 59,760,193 |
| Less: provision for slow moving inventories | **(760,930)** | (884,482) |
| | **99,685,397** | 58,875,711 |
| Goods-in-transit | **5,080,862** | 2,636,921 |
| | **104,766,259** | 61,512,632 |

Movement of the provision for slow moving inventories is as follows:

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| At 1 January | **884,482** | 1,756,444 |
| Charge/(reversal) for the year | **42,620** | (47,688) |
| Write-off | **(166,172)** | (824,274) |
| At 31 December | **760,930** | 884,482 |

## 11 TRADE AND OTHER RECEIVABLES

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| Trade receivables | **99,239,250** | 78,429,868 |
| Less: provision for expected credit losses | **(4,722,443)** | (4,772,383) |
| | **94,516,807** | 73,657,485 |
| Prepaid expenses | **3,443,619** | 2,115,675 |
| Advances to suppliers | **7,516,185** | 275,636 |
| Staff receivables | **64,714** | 71,422 |
| Other receivables | **319,254** | 1,734,969 |
| | **105,860,579** | 77,855,187 |

As at 31 December 2021, trade receivables at nominal value of AED 4,722,443 (2020: AED 4,772,383) were impaired. Movement of the provision for expected credit losses is as follows:

| | ***2021*** ***AED*** | *2020* *AED* |
|---|---|---|
| At 1 January | **4,772,383** | 3,404,096 |
| Assumed on business combination (Note 8) | **199,373** | - |
| Net (reversal)/ charge for the year | **(249,313)** | 1,368,287 |
| At 31 December | **4,722,443** | 4,772,383 |

## 11 TRADE AND OTHER RECEIVABLES (continued)

The Group's terms of sales require amounts to be paid within the range of 30 to 120 days from the date of sale. As at 31 December, the ageing of unimpaired trade receivables on the basis of due dates is as follows:

| | | | | ***Past due but not impaired*** | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Total AED* | *Neither past due nor impaired AED* | *<30 days AED* | *30-60 days AED* | *60-90 days AED* | *90-120 days AED* | *120-150 days AED* | *>150 days AED* |
| **2021** | **94,516,807** | **84,854,252** | **5,641,082** | **1,742,673** | **541,061** | **564,425** | **401,236** | **772,078** |
| 2020 | 73,657,485 | 67,625,760 | 4,790,884 | 626,616 | 137,780 | 142,607 | 291,083 | 42,755 |

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

## 12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of cash flows consist of the following amounts in the consolidated statement of financial position:

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| Cash in hand | **187,049** | 96,885 |
| Bank balances | **1,980,307** | 9,318,394 |
| Deposits | **50,100,000** | 105,600,000 |
| Bank balances and cash | **52,267,356** | 115,015,279 |
| Less: Deposits with an original maturity of more than three months | **(1,000,000)** | (500,000) |
| Bank overdrafts (Note 22) | **(4,370,898)** | - |
| Cash and cash equivalents | **46,896,458** | 114,515,279 |

Deposits are placed with local banks and accrue interest at prevailing market rates. The deposits with an original maturity of more than three months is against the bank guarantee for employees. During the year, the Group earned interest income amounting to AED 997,386 (2020: AED 1,948,990) which is included in other income presented on the face of consolidated statement of profit and loss.

## 13 SHARE CAPITAL

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| Authorised, issued and fully paid up: | | |
| 30,250,000 ordinary shares of 1 AED each (31 December 2020: 30,250,000 ordinary shares of 1 AED each) | **30,250,000** | 30,250,000 |

***Dividend declared***

The Annual General Meeting held on 22 March 2021 approved a dividend of AED 0.65 per share totalling to AED 19,662,500 relating to 2020, which was paid during the year (relating to 2019: Annual General Meeting held on 25 March 2020 approved 0.30 per share totalling to AED 9,075,000 which was paid during March 2020).

During the Board of Directors' meeting held on 8 February 2022, the Directors proposed a 20% cash dividend totaling to AED 6,050,000 relating to 2021 subject to approval by the Shareholders in the Annual General Meeting.

## 14 STATUTORY RESERVE

In accordance with the UAE Federal Law No. (2) of 2015 (as amended), a minimum of 10% of the profit of the Company is to be allocated annually to a non-distributable statutory reserve. Such allocations may be ceased when the statutory reserve becomes equal to half of the share capital. The Company has already transferred AED 15,125,000 which reached the minimum statutory reserve requirement as per the Law and therefore no further transfers to statutory reserve were made during the year and the previous year. This reserve is not available for distribution except in the circumstances stipulated by the law.

## 15 REGULAR RESERVE

In accordance with the Articles of Association of the Company, 10% of the net profit for each year should be transferred to a regular reserve and such transfers cease through a resolution of the usual general assembly upon a suggestion of the board of directors or if it reaches 50% of the paid up capital of the Company. The Company has already transferred AED 15,125,000 which reached the minimum reserve requirement as per the Articles of Association and therefore no further transfers to regular reserve were made during the year and the previous year. This reserve is to be used for purposes as recommended by the board of directors and approved at the general assembly.

## 16 GENERAL RESERVE

In accordance with the Articles of Association of the Company, any undistributed net profit may be transferred to the general reserve according to the decisions of the Board of Directors. No transfer has been made to general reserve during the year and the previous year.

## 17 FAIR VALUE RESERVE

The fair value reserve represents the unrealised gains and losses arising from changes in the fair value of investment securities classified as equity securities with “fair value changes in other comprehensive income (FVOCI)”. The fair value reserve is recognised under fair value reserve in equity until the investments are sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings directly.

Movement of the fair value reserve recognised in the consolidated statement of financial position is as follows:

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| Balance at 1 January | **(133,397)** | (404,786) |
| Net change in fair value of investment securities carried at fair value through OCI (note 7) | **966,830** | (115,965) |
| Impact of sale of investment securities (note 7) | **-** | 7,194 |
| Impact of sale of investment in an associate (note 8) | **-** | 380,160 |
| Balance as at 31 December | **833,433** | (133,397) |

## 18 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit net of Directors’ remuneration for the year amounting to AED 8,035,994 (31 December 2020: AED 35,065,062) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2021 of 30,250,000 shares (during the year ended 31 December 2020: 30,250,000 shares).

The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

## 19 EMPLOYEES' END OF SERVICE BENEFITS

| | 2021 AED | 2020 AED |
|---|---|---|
| At 1 January | **7,804,771** | 7,056,882 |
| Provision during the year | **1,286,649** | 1,366,798 |
| Assumed on business combination (Note 8) | **196,298** | - |
| End of service benefits paid | **(1,002,458)** | (618,909) |
| At 31 December | **8,285,260** | 7,804,771 |

## 20 LEASE LIABILITIES

| | 2021 AED | 2020 AED |
|---|---|---|
| At 1 January | **14,495,930** | 14,509,578 |
| Addition during the year | **726,820** | 2,079,814 |
| Add: finance cost | **729,427** | 732,848 |
| Retirements during the year | **(1,018,741)** | - |
| Less: payments during the year, net of prepayments and accruals adjustment | **(1,680,383)** | (2,826,310) |
| At 31 December | **13,253,053** | 14,495,930 |

Presented on consolidated statement of financial position as follows:

| | 2021 AED | 2020 AED |
|---|---|---|
| Current | **2,036,582** | 1,778,404 |
| Non-current | **11,216,471** | 12,717,526 |
| | **13,253,053** | 14,495,930 |

Additions to lease liabilities during the year ended 31 December 2020 were recognised at inception of respective leases after netting off an advance payment of AED 5,000,000 (Note 23) and other receivables of AED 214,285 from one of the lessors at the inception of lease.

## 21 TRADE AND OTHER PAYABLES

| | 2021 AED | 2020 AED |
|---|---|---|
| Trade payables | **17,512,717** | 17,225,350 |
| Accrued expenses and other payables | **24,010,481** | 15,167,135 |
| Directors' remuneration payable | **725,000** | 3,700,000 |
| Accrual for goods in transit | **1,506,498** | 1,052,040 |
| Contract liabilities - advances from customers | **1,651,239** | 320,776 |
| Dividends payable | **93,044** | 93,044 |
| | **45,498,979** | 37,558,345 |

Accrued expenses and other payables include retention payables of AED 111,913 (2020: AED 90,113) towards capital work-in-progress for the expansion of factory and warehouse facility in Jebel Ali Industrial Area.

Accrued expenses include provision of an amount of AED 7.1 million (Note 4) created during the year against a court order issued against the Group under a claim by an ex-distributor.

## 22 BANK OVERDRAFTS

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| Bank Overdrafts | **4,370,898** | - |

The Group has overdraft facilities from its bankers under Islamic and conventional banking. These facilities carry profit/interest rates prevailing at market rates. Bank overdrafts have been included in cash and cash equivalents (Note 12) for the purpose of consolidated statement of cashflows.

## 23 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management in line with the approval of the Group's board of directors.

### a) Significant transactions with related parties:

Significant transactions with related parties are as follows:

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| *Other related parties:* | | |
| Sales to related parties | **1,849,600** | 542,563 |
| Purchases of raw materials and services | **8,610** | 9,633 |
| Expenses recharged | **-** | 792 |
| Rental income | **-** | 125,000 |

**Compensation of key management personnel**
The remuneration of Directors and other key members of management during the year were as follows:

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| Short-term benefits | **3,194,796** | 3,194,796 |
| Employees' end of service benefits | **145,700** | 144,487 |
| Bonus | **580,000** | 630,000 |
| Directors' sitting fees | **90,000** | 105,000 |
| | **4,010,496** | 4,074,283 |

For the year ended 31 December 2021, the Board of Directors determined the remuneration of Directors amounting to AED 725,000 (2020: AED 3,700,000), which is to be ratified by the shareholders in the upcoming annual general meeting, and remained outstanding at reporting date and included in trade and other payables.

### b) Amounts due from related parties:

| | ***2021*** | *2020* |
|---|---|---|
| | ***AED*** | *AED* |
| Trade receivables | **602,070** | 139,335 |

## 23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Company signed memorandum of understanding/pre-sales agreement and given refundable advance of AED 5,000,000 (Note 20) to a related party for purchase of properties. The Annual General Meeting held on 25 March 2019 approved the transaction. During 2020, a lease agreement was signed between the Company and the related party effective April 2020. The advance was capitalised to right-to-use assets and depreciated over 25 years as per IFRS 16.

## 24 CONTINGENCIES AND COMMITMENTS

**Contingent liabilities**
At 31 December 2021, the Group had contingent liabilities in respect of banks amounting to AED 1,718,938 (31 December 2020: AED 2,124,372) from which it is anticipated that no material liabilities will arise.

*Legal claim contingency*
The Group has a few pending litigations that occur in the ordinary course of business. To the extent, the Directors believe appropriate, adequate provisions have been made in the accounts (Note 4).

**Capital commitments**
At 31 December 2021, the Group had capital commitments in respect of purchase of property, plant and equipment amounting to AED 2,682,932 (31 December 2020: AED 1,601,326).

## 25 SEGMENTAL REPORTING

The Group operates in a single reporting segment primarily engaged in manufacturing, processing and marketing of vegetable ghee, cooking oil, margarine, butter products and fat including trading of food products. All the relevant information relating to this reporting/operating segment is disclosed in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and notes to the consolidated financial statements.

IFRS also requires an entity to report its segment assets and revenues along geographical regions. All significant activities of the Group are performed on an integrated basis in the Middle East and the Directors do not consider an analysis by individual country would be meaningful.

Additional information required by IFRS 8 *Segment Reporting*, is disclosed below:

*Major customer*
During the year ended 31 December 2021, revenue from no customer accounts for 10% or more of the Group’s total revenue (31 December 2020: Revenue from no customer accounts for 10% or more of the Group’s total revenue).

## 26 RISK MANAGEMENT

The Group’s principal financial liabilities comprise trade and other payable, bank overdrafts and lease liabilities. The Group has various financial assets such as trade and other receivable, amounts due from related parties and bank balances and cash. Both financial assets and liabilities arise directly from its operations.

Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group does not hold or issue derivative financial instruments for speculative purpose.
The Group is mainly exposed to interest rate risk, credit risk, liquidity risk, equity price risk and foreign currency risk. No changes were made in the risk management objectives and policies during the year ended 31 December 2021 and 2020. The senior management of the Group reviews and agrees policies for managing each of these risks which are summarised in the next page.

**26 RISK MANAGEMENT (continued)**

**Interest rate risk**
The Group is exposed to interest rate risk on its interest-bearing assets and liabilities.

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 result for one year, based on the floating rate financial assets and financial liabilities held at 31 December. There is no impact on the Group's equity.

| | *Increase/ decrease in basis points* | *Effect on profit for the year* |
|---|---|---|
| **2021** | | |
| **AED** | **+100** | **457,291** |
| **AED** | **-100** | **(457,291)** |
| | | |
| 2020 | | |
| AED | +100 | 1,056,000 |
| AED | -100 | (1,056,000) |

**Credit risk**
The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Certain categories of customers are covered through credit insurance and most of the export sales customers are covered either through letter of credit or bank guarantees.

The Group limits its credit risk with regard to bank deposits by only dealing with reputable banks. Credit risk is limited to the carrying values of financial assets in the consolidated statement of financial position.

With respect to credit risk arising from other financial assets of the Group, including cash and cash equivalents and trade and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

| | ***2021 AED*** | *2020 AED* |
|---|---|---|
| Bank balances and deposits | **52,080,307** | 114,918,394 |
| Trade receivables | **94,516,807** | 73,657,485 |
| Amounts due from related parties | **602,070** | 139,335 |
| Staff receivables | **64,714** | 71,422 |
| Other receivables | **1,867,545** | 1,734,969 |
| | **149,131,443** | 190,521,605 |

**Liquidity risk**
The Group limits its liquidity risk by ensuring that adequate internally generated funds, bank facilities and funds from the shareholders are available. The Group's terms of sales require amounts to be paid within the range of 30 to 120 days from the date of sale. Trade payables are normally settled within 30 to 90 days from the date of purchase.

## 26 RISK MANAGEMENT (continued)

**Liquidity risk (continued)**
The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

***At 31 December 2021***

| | ***Less than 1 year AED*** | ***1 to 5 years AED*** | ***>5 years AED*** | ***Total AED*** |
|---|---|---|---|---|
| Trade and other payables | **43,122,740** | **-** | **-** | **43,122,740** |
| Lease liabilities | **2,205,582** | **7,879,567** | **10,076,099** | **20,161,248** |
| Bank overdrafts | **4,370,898** | **-** | **-** | **4,370,898** |
| Total | **49,699,220** | **7,879,567** | **10,076,099** | **67,654,886** |

*At 31 December 2020*

| | *Less than 1 year AED* | *1 to 5 years AED* | *>5 years AED* | *Total AED* |
|---|---|---|---|---|
| Trade and other payables | 33,537,569 | - | - | 33,537,569 |
| Lease liabilities | 2,033,442 | 6,554,521 | 12,833,032 | 21,420,995 |
| Total | 35,571,011 | 6,554,521 | 12,833,032 | 54,958,564 |

**Equity price risk**
The Group is exposed to equity securities price risk in respect of investments held by the Group classified as investments carried at fair value with changes in fair value through OCI in the consolidated statement of financial position. The Group's investments in equity securities are publicly traded and are listed in stock exchanges in the UAE and Oman.

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to listed equity securities at fair value was AED 1,950,811 (2020: AED 983,982). A decrease of 10% in the market index could have an impact of approximately AED 195,081 (2020: AED 98,398) on the other comprehensive income or equity attributable to the Group, depending on whether the decline is significant or prolonged. An increase of 10% in the value of the listed securities, would only impact equity but would not have an effect on profit or loss.

**Foreign currency risk**
The Group is not exposed to any significant foreign currency risk as transactions are mainly in US Dollar and the United Arab Emirates Dirham, which is pegged to the US Dollar.

**Capital management**
The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. During the year there were no major changes in the objectives, policies or processes. Capital comprises share capital, reserves and retained earnings and is measured at AED 301,002,796 as at 31 December 2021 (2020: AED 311,662,472).

## 27 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand and bank balances, trade and other receivables, amounts due from related parties and investment securities at fair value through other comprehensive income. Financial liabilities consist of trade and other payables and lease liabilities.

The fair values of financial instruments are not materially different from their carrying values.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2021, the Group held the following financial instruments measured at fair value:

**Assets measured at fair value**

| | ***31 December 2021 AED*** | ***Level 1 AED*** | ***Level 2 AED*** | ***Level 3 AED*** |
|---|---|---|---|---|
| Quoted equity securities | | | | |
| Consumer Staples Sector | **1,240,812** | **1,240,812** | **-** | **-** |
| Investments and Financial Services Sector | **710,000** | **710,000** | **-** | **-** |
| Total | **1,950,812** | **1,950,812** | **-** | **-** |

As at 31 December 2020, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

| | *31 December 2020 AED* | *Level 1 AED* | *Level 2 AED* | *Level 3 AED* |
|---|---|---|---|---|
| Quoted equity securities | | | | |
| Consumer Staples Sector | 751,482 | 751,482 | - | - |
| Investments and Financial Services Sector | 232,500 | 232,500 | - | - |
| Total | 983,982 | 983,982 | - | - |

During the years ended 31 December 2021 and 31 December 2020, there were no transfers between the various levels of fair value measurements.

## 28 FIDUCIARY ASSETS

As at 31 December 2021, the Group held 54.75 MT (31 December 2020: 3.09 MT) raw materials, in a fiduciary capacity on behalf of third parties