

UNITED FOODS COMPANY (PSC)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



الأغذية المتحدة United Foods

DIRECTORS' REPORT

The Directors are pleased to present their report together with audited financial statements of United Foods Company (PSC) (the "Company") for the year ended 31 December 2020.

Review of the activities

Despite 2020 being another challenging year globally with a very competitive business environment for the FMCG sector and geopolitical headwinds faced by the region, and despite the pandemic declared on 11 March 2020, Management believes that the outbreak has not had a significant impact to the Company's operations to date. The Company was able to maintain good margins despite the slight decrease in gross profit margin by 3%. The Company's net profit increased to AED 38.8 million (excluding share of results of an associate) representing an increase of 20%, mainly affected by the gain on sale of investment in an associate that amounted to AED 10.6 million. Yet, the Company continued to benefit from the effective implementation of cost control, efficiency enhancement due to consolidation of manufacturing operations at one location, coupled with development of cost effective and healthy recipes.

Due to geopolitical unrest in the region, export revenue to niche export markets was severely impacted and registered a decline of 14%.

The Company's strategic focus to grow and expand the business in UAE and GCC markets and expansion in other food products helped to maintain the volumes in the local market.

The revenue increased by 8% due to increase in net sales price realization due to increase in oil prices and increased Frozen and Dairy businesses.

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

Results

The Company recorded turnover before discounts and marketing expenses of AED 429,256,337, an increase of 8% over 2019 (2019: AED 397,003,572) with a net profit (excluding share of results of an associate) of AED 38,765,062 (2019: AED 32,332,942).





DIRECTORS' REPORT (continued)

	2020 AED
Retained earnings balance as at 1 January 2020	159,889,472
Profit for the year 2020	38,765,062
Impact of sale of an associate	108,549
Impact of sale of investment securities	(7,194)
Profit available for appropriation as at 31 December 2020	198,755,889
Appropriations:	
Dividends declared and paid (relating to 2019)	(9,075,000)
Directors' remuneration	(3,700,000)
Retained earnings balance as at 31 December 2020	185,980,889

65% cash dividend totaling to AED 19,662,500 is proposed relating to the year 2020 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 Al Owais	- Chairman
Mr. Mohamed Abdel Aziz Ali Abdalla Al Owais	- Executive Vice Chairman
Mr. Mohamed Salim Rashid Abdalla Al Owais	- Vice Chairman
Mr. Ahmed Abdullah Sultan Al Owais	- Director
Mr. Mohamed Ali Nasir Abdalla Al Owais	- Director
Mr. Abdulla Mohamed Rashid Alhuraiz	- Director
Mr. Salim Sultan Omran Salim Al Owais	- Director

For and on behalf of the Board

08/02 2021



**Grant Thornton
United Arab Emirates**

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**Independent Auditor's Report
To the Shareholders of United Foods Company (PSC)**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of United Foods Company (PSC) (the "Company"), which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its 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 Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the 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.



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Independent Auditor's Report

To the Shareholders of United Foods Company (PSC) (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

We have fulfilled the responsibilities described in the “*Auditor's Responsibilities for the Audit of the 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 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 financial statements.

i) Revenue recognition

Revenue is a material and an important determinant of the Company's performance and profitability. This gives rise to the inherent risk that revenue recognised is overstated in order to present more profitable results for the year. The Company generates revenue from sale of goods when the Company satisfies performance obligations by transferring the promised goods to its customers (refer note 2.3 to the financial statements for the revenue recognition policy). Given the magnitude of the amount and inherent risk of revenue overstatement, we consider revenue recognition to be a key audit matter.

The work that we performed to address this key audit matter included the following procedures:

- Testing the design and operation effectiveness of controls in respect of the Company's revenues and accounts receivables processes;
- Substantive testing and analytical procedures to test the accuracy and occurrence of the invoices recorded during the year;
- Substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals for rebates and discounts;
- Analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to previous year;
- 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;
- Inquiry of management at different levels and departments of their knowledge of fraud risk and actual fraud instances; and
- Performed journal entries testing for accounts related to identified risks of material misstatement and verified them with supporting documents.

**Independent Auditor's Report
To the Shareholders of United Foods Company (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

ii) Existence, collectability of trade receivables balances, and adequacy of provision for expected credit losses

As at 31 December 2020, the Company had trade receivables of AED 78.4 million, before provision for expected credit losses of AED 4.8 million (refer to note 10 to the financial statements), which are significant to the Company as they represent approximately 21% of the total assets of the Company. In addition, the consumer product industry continues to be impacted by macroeconomic challenges which increases the risk of the collectability of trade receivables.

The work that we performed to address this key audit matter included the following procedures:

- Requested direct confirmations for a selected sample of customers of the Company 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;
- Reviewed the management's assessment of recoverability of accounts receivable through detailed analysis of ageing of accounts receivable, and also assessed the adequacy of any related provisions;
- Inquired of management about any past due accounts receivable with no subsequent collections and management's plan for recovering these receivables; and
- Inquired of management about disputes, if any, with customers during the year and reviewed any related uncollected amounts to assess their recoverability.



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**Independent Auditor's Report
To the Shareholders of United Foods Company (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

iii) Existence, valuation and adequacy of provision for slow moving inventories

As at 31 December 2020, the gross inventory balance amounts to AED 62 million, before the provision for slow moving inventories of AED 0.88 million (refer to note 9 to the financial statements), which is significant to the Company as it represents approximately 17% of the total assets of the Company. Due to the significance of the inventory balance and related estimation involved, this is considered as a key audit matter.

The work that we performed to address this key audit matter included the following procedures:

- Obtained an understanding and evaluated the design of the internal controls over the Company's process pertaining to inventory valuation and provision for slow moving inventories;
- Attended and observed physical inventory count performed by the store and finance department at year end;
- Performed substantive testing and analytical procedures to test the accuracy and occurrence of the purchases' invoices recorded during the year;
- Assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items;
- Tested the reliability of the underlying data used by management to calculate the inventory obsolescence provisions; and
- Performed a net realisable value test to ensure that inventories are measured at the lower of cost and net realisable value.

**Independent Auditor's Report
To the Shareholders of United Foods Company (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. Other information consists of the information included in the Company's 2020 Annual Reports but does not include the financial statements and our Auditor's Report thereon. We obtained the report of the Board of Directors prior to the date of our Auditor's Report, and we expect to obtain the remaining sections of the Company's 2020 Annual Report after the date of our Auditor's Report.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Auditor's 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.



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**Independent Auditor's Report
To the Shareholders of United Foods Company (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.



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Independent Auditor's 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, we report that:

- i) the Company has maintained proper books of account;
- ii) we have obtained all the information and explanations 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;
- iv) the financial information included in the Directors' report is consistent, in so far as it relates to these financial statements, with the books of account of the Company;
- v) investments in shares and stocks during the year ended 31 December 2020 are disclosed in notes 7 and 8 to the financial statements;
- vi) note 21 reflects significant transactions with related parties 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 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 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.

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Osama El Bakry
Registration No. 935
Dubai, United Arab Emirates



8 February 2021

United Foods Company (PSC)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2020

	<i>Notes</i>	<i>2020 AED</i>	<i>2019 AED</i>
Sales, gross		429,256,337	397,003,572
Less: Discounts and marketing expenses		(17,838,291)	(14,034,769)
Sales, net		411,418,046	382,968,803
Cost of sales		(334,679,356)	(303,751,827)
GROSS PROFIT		76,738,690	79,216,976
Selling and distribution expenses		(33,947,567)	(32,058,628)
General and administrative expenses		(16,908,861)	(17,497,302)
Finance costs		(912,362)	(972,108)
Gain on sale of investment in an associate	8	10,572,453	-
Other income, net		3,222,709	3,644,004
PROFIT BEFORE THE RESULTS OF ASSOCIATE		38,765,062	32,332,942
Share of results of an associate	8	-	(3,623,276)
PROFIT FOR THE YEAR	3	38,765,062	28,709,666
Earnings per share in AED	17	1.16	0.87

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Profit for the year	38,765,062	28,709,666
Other comprehensive (loss)/income		
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent years:</i>		
Change in fair value of investment securities measured at FVOCI, equity securities	(115,965)	39,578
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent years:</i>		
Share of other comprehensive loss of an associate	-	(112,039)
Other comprehensive loss	(115,965)	(72,461)
Total comprehensive income for the year	38,649,097	28,637,205

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 AED	2019 AED
ASSETS			
Non-current assets			
Property, plant and equipment	4	95,951,200	104,645,858
Right-to-use assets	5	19,848,951	14,326,567
Intangible assets	6	214,952	397,292
Investment securities	7	983,982	252,067
Investment in an associate	8	-	8,998,477
		116,999,085	128,620,261
Current assets			
Inventories	9	61,512,632	45,265,178
Trade and other receivables	10	77,855,187	77,955,430
Amounts due from related parties	21	139,335	5,726,659
Bank balances and cash	11	115,015,279	84,475,907
		254,522,433	213,423,174
TOTAL ASSETS		371,521,518	342,043,435
EQUITY AND LIABILITIES			
Equity			
Share capital	12	30,250,000	30,250,000
Statutory reserve	13	15,125,000	15,125,000
Regular reserve	14	15,125,000	15,125,000
General reserve	15	65,314,980	65,314,980
Fair value reserve	16	(133,397)	(404,786)
Retained earnings		185,980,889	159,889,472
Total equity		311,662,472	285,299,666
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits	18	7,804,771	7,056,882
Lease liabilities	19	12,717,526	12,719,439
		20,522,297	19,776,321
Current liabilities			
Trade and other payables	20	37,558,345	35,177,309
Lease liabilities	19	1,778,404	1,790,139
		39,336,749	36,967,448
Total liabilities		59,859,046	56,743,769
TOTAL EQUITY AND LIABILITIES		371,521,518	342,043,435

Ali Bin Humaid Al Owais
Chairman

08/02/2021

Mohammed Abdel Aziz Ali Abdalla Al Owais
Executive Vice Chairman

08/02/2021

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 8)	-	-	-	-	380,160	108,549	488,709
Impact of sale of investment securities (Note 7)	-	-	-	-	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 12)	-	-	-	-	-	(9,075,000)	(9,075,000)
Directors' remuneration (Note 21)	-	-	-	-	-	(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

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 2019	30,250,000	15,125,000	15,125,000	65,314,980	(332,325)	141,217,306	266,699,961
Profit for the year	-	-	-	-	-	28,709,666	28,709,666
Other comprehensive loss	-	-	-	-	(72,461)	-	(72,461)
Total comprehensive (loss)/income for the year	-	-	-	-	(72,461)	28,709,666	28,637,205
Dividends declared and paid (Note 12)	-	-	-	-	-	(7,562,500)	(7,562,500)
Directors' remuneration (Note 21)	-	-	-	-	-	(2,475,000)	(2,475,000)
Balance as at 31 December 2019	30,250,000	15,125,000	15,125,000	65,314,980	(404,786)	159,889,472	285,299,666

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 AED	2019 AED
OPERATING ACTIVITIES			
Profit for the year		38,765,062	28,709,666
Adjustments for:			
Depreciation on property, plant and equipment	4	11,422,102	10,978,351
Depreciation on right-to-use assets	5	1,771,715	1,450,914
Amortisation of intangible assets	6	182,340	176,662
Gain on sale of investment securities	7	(82)	-
Gain on sale of investment in an associate	8	(10,572,453)	-
Gain on disposal of property, plant and equipment		(58,126)	(58,979)
Finance cost		912,362	972,108
Provision for employees' end of service benefits	18	1,366,798	1,093,368
Provision for expected credit losses	10	1,368,287	1,167,909
(Reversal)/provision for slow moving inventories	9	(47,688)	427,210
Share of results of associate	8	-	3,623,276
		<u>45,110,317</u>	<u>48,540,485</u>
Working capital changes:			
Inventories		(16,199,766)	5,248,580
Trade and other receivables		(814,669)	(1,970,710)
Trade and other payables		(1,318,964)	(11,810,378)
Amounts due from related parties		(80,336)	(342,603)
		<u>26,696,582</u>	<u>39,665,374</u>
Employees' end of service benefits paid	18	(618,909)	(840,449)
Net cash generated from operating activities		<u>26,077,673</u>	<u>38,824,925</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(2,727,444)	(2,237,281)
Purchase of intangible assets	6	-	(101,035)
Proceeds from disposal of property, plant and equipment		58,126	62,857
Proceeds from disposal of investment in an associate		20,059,639	-
Purchase of investment securities	7	(859,733)	-
Proceeds from disposal of investment securities		11,935	-
Change in bank deposits	11	1,050,000	-
Net cash generated from/(used in) investing activities		<u>17,592,523</u>	<u>(2,275,459)</u>
FINANCING ACTIVITIES			
Payment of lease liabilities	19	(2,826,310)	(1,885,496)
Finance costs paid		(179,514)	(236,879)
Dividends paid	12	(9,075,000)	(7,562,500)
Net cash used in financing activities		<u>(12,080,824)</u>	<u>(9,684,875)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		<u>31,589,372</u>	<u>26,864,591</u>
Cash and cash equivalents at 1 January		<u>82,925,907</u>	<u>56,061,316</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	<u><u>114,515,279</u></u>	<u><u>82,925,907</u></u>

The accompanying notes from 1 to 27 form an integral part of these financial statements.

United Foods Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

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 UAE Federal Law No. (2) of 2015.

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 food products. The registered address of the Company is P.O. Box 5836, Dubai, UAE.

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the applicable requirements of the UAE Federal Law No. (2) of 2015.

The financial statements have been prepared on the historical cost basis, modified to include the measurement at fair value investment securities.

The financial statements are presented in United Arab Emirates Dirham (“AED”), which is also the Company’s functional currency.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company’s financial statements for the year ended 31 December 2019, except for the adoption of new standards, interpretations and amendments mandatorily effective for the first time as of 1 January 2020 stated below. The Company 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 Company

Standards, interpretations and amendments to existing standards that are effective in 1 January 2020

There are amendments to existing standards effective from 1 January 2020 issued by IASB. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company’s financial statements:

- i) IAS 1 (Amendments), *Presentation of Financial Statements* and IAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from 1 January 2020). The amendments provide a clearer definition of ‘material’ in IAS 1 by including the concept of ‘obscuring’ material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity’s own circumstances). The definition of material in IAS 8 has been accordingly replaced by reference to the new definition in IAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term ‘material’ to ensure consistency.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards, interpretations and amendments thereof, adopted by the Company (continued)

Standards, interpretations and amendments to existing standards that are effective in 1 January 2020 (continued)

- ii) Revised Conceptual Framework for Financial Reporting (effective from 1 January 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

As per the management's assessment, no impact on the financial statements for the above revisions.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification

The Company presents assets and liabilities in the 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 Company classifies all other liabilities as non-current.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company.

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 Company 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 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 financial statements on a recurring basis, the Company 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 Company expects to be entitled in exchange for those goods or services. The Company 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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.

Volume rebates

The Company 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 Company 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 Company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company 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 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 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 bringing 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.

Leases

Right-to-use assets

The Company 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 Company 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company 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 Company 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 Company 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 Company as a lessor

Leases in which the Company 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 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 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 statement of profit or loss when the asset is derecognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date the Company 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 Company 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 statement of profit or loss.

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 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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments-initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

The Company'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 Company 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

Financial assets at amortised cost

This category is the most relevant to the Company. The Company 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 statement of profit or loss when the asset is derecognised, modified or impaired.

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

Cash and cash equivalents

For the purpose of the 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.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company 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 statement of profit or loss when the right of payment has been established, except when the Company 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 Company elected to classify irrevocably its non-listed equity investments under this category.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments-initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company 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 Company could be required to repay.

Impairment of financial assets

The Company 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 Company 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 Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company considers a financial asset in default when contractual payments are 90 days past due.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments-initial recognition and subsequent measurement (continued)

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 Company'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 Company.

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 statement of profit or loss.

iii) Offsetting of financial instruments

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

Investment in associate

An associate is an entity over which the Company 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 Company'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 Company'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 statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate (continued)

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company 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 statement of profit or loss.

Upon loss of significant influence over the associate, the Company 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 statement of profit or loss.

Provisions

Provisions are recognised when the Company 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 Company 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 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 Company 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 Company makes contributions to government pension scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Contingencies and commitments

Contingent liabilities are not recognised in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

Value added tax ("VAT")

The Company 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 Company reports revenue net of value added tax for all the periods presented in the financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded by the Company 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 Company's 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 Company'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 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 Company 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 Company 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 Company 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 Company considers whether the amount of variable consideration is constrained. The Company 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.

Property lease classification – The Company as lessor

The Company 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 Company 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.

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

Judgements (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Company 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 Company has the option, under some of its leases to lease the assets for additional terms of three or more years. The Company 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 Company 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 Company 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 Company has a policy of leasing motor vehicles for not more than five years and hence not exercising any renewal options.

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 Company based its assumptions and estimates on parameters available when the 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 Company. 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 62,397,114 (2019: AED 47,021,622) before provisions for slow moving inventories of AED 884,482 (2019: AED 1,756,444). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of profit or loss.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
(continued)**Estimates and assumptions (continued)***Estimating variable consideration for returns and volume rebates*

The Company estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and volume rebates. The Company 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 Company.

The Company'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 Company 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 Company'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 2020 and 2019, 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 Company 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 Company's historical observed default rates. The Company 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 Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

3 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2020 AED	2019 AED
Inventories charged to cost of sales	307,753,540	274,674,297
Employee expenses	36,862,280	35,758,418
Rental - operating lease	524,331	503,578
Relocation expenses of product lines	-	873,525

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").

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings AED</i>	<i>Plant, machinery and equipment AED</i>	<i>Furniture, fixtures and office equipment AED</i>	<i>Motor vehicles AED</i>	<i>Capital work-in- progress AED</i>	<i>Total AED</i>
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 2020	46,927,360	127,319,587	4,822,769	10,725,693	771,394	190,566,803
Net carrying value						
At 31 December 2020	<u>45,698,078</u>	<u>44,886,120</u>	<u>699,896</u>	<u>2,976,284</u>	<u>1,690,822</u>	<u>95,951,200</u>
	<i>Land and buildings AED</i>	<i>Plant, machinery and equipment AED</i>	<i>Furniture, fixtures and office equipment AED</i>	<i>Motor vehicles AED</i>	<i>Capital work-in- progress AED</i>	<i>Total AED</i>
Cost:						
At 1 January 2019	92,595,748	169,850,944	7,125,332	13,876,153	3,238,450	286,686,627
Additions	-	-	-	-	2,237,281	2,237,281
Disposals	-	(6,982)	-	(587,676)	-	(594,658)
Transfers	29,690	3,385,289	317,266	732,400	(4,464,645)	-
At 31 December 2019	92,625,438	173,229,251	7,442,598	14,020,877	1,011,086	288,329,250
Accumulated depreciation and impairment:						
At 1 January 2019	40,971,090	116,807,292	4,920,628	9,825,417	771,394	173,295,821
Charge for the year	3,002,595	6,085,232	879,733	1,010,791	-	10,978,351
Disposals	-	(3,143)	-	(587,637)	-	(590,780)
At 31 December 2019	43,973,685	122,889,381	5,800,361	10,248,571	771,394	183,683,392
Net carrying value						
At 31 December 2019	<u>48,651,753</u>	<u>50,339,870</u>	<u>1,642,237</u>	<u>3,772,306</u>	<u>239,692</u>	<u>104,645,858</u>

The Company'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 Company. The Company's building in Jebel Ali Industrial Area is constructed on land taken on lease from the Government of Dubai.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Capital work-in-progress of AED 1,690,822 (2019: AED 239,692) as at 31 December 2020 pertains to the expenditures incurred for the expansion of factory and warehouse facility in Jebel Ali Industrial Area. It includes capital advances of AED 117,027 (2019: AED 37,350) as at 31 December 2020. It also includes capital work-in-progress of AED 40,599 pertaining to 5% remaining values of filling machines against which 95% impairment loss of AED 771,394 was recorded in 2011.

The Company has temporarily rented out a portion of land and building in Al Quoz and certain staff accommodation units to third party to earn rentals.

The cost of fully depreciated assets still in use as at 31 December 2020 was AED 123 million (2019: AED 120.7 million). The depreciation charge for the year has been allocated as follows:

	2020 AED	2019 AED
Cost of sales	7,968,585	7,694,691
Selling and distribution expenses	2,706,057	2,606,882
General and administrative expenses	747,460	676,778
	<u>11,422,102</u>	<u>10,978,351</u>

5 RIGHT-TO-USE ASSETS

	2020 AED	2019 AED
As at 1 January	14,326,567	14,919,028
Additions during the year	7,294,099	858,453
Less: depreciation for the year	(1,771,715)	(1,450,914)
	<u>19,848,951</u>	<u>14,326,567</u>

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

6 INTANGIBLE ASSETS

	<i>Software</i>	
	2020 AED	2019 AED
Cost:		
At 1 January	2,894,229	2,793,194
Additions	-	101,035
Disposals	(3,800)	-
At 31 December	<u>2,890,429</u>	<u>2,894,229</u>
Accumulated amortisation:		
At 1 January	2,496,937	2,320,275
Charge for the year	182,340	176,662
Disposals	(3,800)	-
At 31 December	<u>2,675,477</u>	<u>2,496,937</u>
Net carrying amount		
At 31 December	<u>214,952</u>	<u>397,292</u>

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

7 INVESTMENT SECURITIES

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Quoted equity securities at Fair value through other comprehensive income	983,982	252,067
The movement of investment securities during the year is as follows:		
	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
At 1 January	252,067	212,489
Additions	859,733	-
Disposals	(11,853)	-
Change in fair value	(115,965)	39,578
At 31 December	983,982	252,067

During 2020, the Company disposed its equity securities in the Marine Terminal Operations Sector. The Company recognised gain on disposal of investment securities amounting to AED 82 recorded in the statement of profit or loss under "Other income, net". Impact of sale of investments securities amounted to AED 7,194 reclassified from fair value reserve to retained earnings.

8 INVESTMENT IN AN ASSOCIATE

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
As at 1 January	8,998,477	12,733,792
Disposal of investment in an associate	(8,998,477)	-
Share of comprehensive loss of associate	-	(3,623,276)
Share of other comprehensive loss of associate	-	(112,039)
	-	8,998,477

During 2019, the Company had a 34.46% interest in Emirates Refreshments (P.S.C.) (the "Associate") which is involved in bottling and selling mineral water and carbonated soft drinks as well as manufacturing plastic bottles and containers. The Associate is a Public Shareholding Company listed on Dubai Financial Market. The Company's interest in the Associate is accounted for using the equity method in the financial statements.

On February 2, 2020, the Company disposed 100% of its shares in the Associate. The Company recognised gain on disposal of investment in associate amounting to AED 10,572,453 recorded in the statement of profit or loss. Impact of sale of an associate amounted to AED 488,709 reclassified from the statement of changes in equity to the statement of profit or loss.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

9 INVENTORIES

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Raw materials	36,072,776	22,388,243
Finished goods	16,527,884	13,667,766
Packing materials	2,024,723	2,926,015
Work-in-progress	2,968,552	1,605,713
Spares and consumables	2,166,258	2,082,632
	<u>59,760,193</u>	<u>42,670,369</u>
Less: provision for slow moving inventories	(884,482)	(1,756,444)
	<u>58,875,711</u>	<u>40,913,925</u>
Goods in transit	2,636,921	4,351,253
	<u>61,512,632</u>	<u>45,265,178</u>

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

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
At 1 January	1,756,444	1,351,483
(Reversal)/charge for the year	(47,688)	427,210
Write-off	(824,274)	(22,249)
	<u>884,482</u>	<u>1,756,444</u>
At 31 December		

10 TRADE AND OTHER RECEIVABLES

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Trade receivables	78,429,868	75,920,278
Less: provision for expected credit losses	(4,772,383)	(3,404,096)
	<u>73,657,485</u>	<u>72,516,182</u>
Prepaid expenses	2,115,675	2,521,836
Advances to suppliers	275,636	728,776
Staff receivables	71,422	136,621
Other receivables	1,734,969	2,052,015
	<u>77,855,187</u>	<u>77,955,430</u>

As at 31 December 2020, trade receivables at nominal value of AED 4,772,383 (2019: AED 3,404,096) were impaired. Movement of the provision for expected credit losses is as follows:

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
At 1 January	3,404,096	2,236,187
Charge for the year	1,368,287	1,167,909
	<u>4,772,383</u>	<u>3,404,096</u>
At 31 December		

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

10 TRADE AND OTHER RECEIVABLES (continued)

The Company'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:

		<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>				
	<i>Total</i>		<i><30</i>	<i>30-60</i>	<i>60-90</i>	<i>90-120</i>	<i>120-150</i>	<i>>150</i>
	<i>AED</i>	<i>AED</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
			<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
2020	73,657,485	67,625,760	4,790,884	626,616	137,780	142,607	291,083	42,755
2019	72,516,182	64,061,532	4,864,290	1,698,409	30,365	556,774	205,961	1,098,851

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

11 CASH AND CASH EQUIVALENTS

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

	<i>2020</i>	<i>2019</i>
	<i>AED</i>	<i>AED</i>
Cash in hand	96,885	72,907
Bank balances	9,318,394	1,753,000
Deposits	105,600,000	82,650,000
Bank balances and cash	115,015,279	84,475,907
Less: deposits with an original maturity of more than three months	(500,000)	(1,550,000)
Cash and cash equivalents	114,515,279	82,925,907

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.

12 SHARE CAPITAL

	<i>2020</i>	<i>2019</i>
	<i>AED</i>	<i>AED</i>
Authorised, issued and fully paid up:		
30,250,000 ordinary shares of 1 AED each		
(31 December 2019: 30,250,000 ordinary shares of 1 AED each)	30,250,000	30,250,000

Dividend declared

The Annual General Meeting held on 15 March 2020 approved 30% cash dividend totaling to AED 9,075,000 relating to 2019 which was paid during the period (relating to 2018: Annual General Meeting held on 25 March 2019 approved 25% cash dividend totaling to AED 7,562,500).

During the Board of Directors' meeting held on 8 February 2021, the Directors proposed a 65% cash dividend totaling to AED 19,662,500 relating to 2020 subject to approval by the Shareholders in the Annual General Meeting.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

13 STATUTORY RESERVE

In accordance with the UAE Federal Law No. (2) of 2015, 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. However, the Company has already transferred AED 15,125,000 which reached the minimum statutory reserve requirement as per the Law. This reserve is not available for distribution except in the circumstances stipulated by the law.

14 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. However, the Company has already transferred AED 15,125,000 which reached the minimum regulatory reserve requirement as per the Law. This reserve is to be used for purposes as recommended by the board of directors and approved at the general assembly.

15 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.

16 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 statement of financial position is as follows:

		2020 AED	2019 AED
Balance at 1 January		(404,786)	(332,325)
Net change in fair value of investment securities carried at fair value through OCI	7	(115,965)	39,578
Impact of sale of investment securities	7	7,194	-
Impact of sale of investment in an associate	8	380,160	-
Share of other comprehensive loss of associate		-	(112,039)
Balance as at 31 December		(133,397)	(404,786)

17 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 35,065,062 (31 December 2019: AED 26,234,666) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2020 of 30,250,000 shares (during the year ended 31 December 2019: 30,250,000 shares).

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

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

18 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
At 1 January	7,056,882	6,803,963
Provision during the year	1,366,798	1,093,368
End of service benefits paid	(618,909)	(840,449)
At 31 December	<u>7,804,771</u>	<u>7,056,882</u>

19 LEASE LIABILITIES

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
At 1 January	14,509,578	14,801,392
Addition during the year	2,079,814	858,453
Add: finance cost	732,848	735,229
Less: payments during the year, net of prepayments and accruals adjustment	(2,826,310)	(1,885,496)
At 31 December	<u>14,495,930</u>	<u>14,509,578</u>

Presented on statement of financial position as follows:

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Current	1,778,404	1,790,139
Non-current	12,717,526	12,719,439
	<u>14,495,930</u>	<u>14,509,578</u>

20 TRADE AND OTHER PAYABLES

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Trade payables	17,225,350	15,207,238
Accrued expenses and other payables	15,167,135	13,910,342
Directors' remuneration payable	3,700,000	2,485,000
Accrual for goods in transit	1,052,040	2,788,183
Advances from customers	320,776	693,172
Dividends payable	93,044	93,374
	<u>37,558,345</u>	<u>35,177,309</u>

Accrued expenses and other payables include retention payables of AED 90,113 (2019: AED 99,002) towards capital work-in-progress for the expansion of factory and warehouse facility in Jebel Ali Industrial Area.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

21 RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Significant transactions with related parties:

Significant transactions with related parties are as follows:

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
<i>Other related parties:</i>		
Sales to related parties	542,563	719,923
Purchases of raw materials and services	9,633	312,762
Expenses recharged	792	491,582
Rental income	125,000	208,333

Compensation of key management personnel

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

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Short-term benefits	3,194,796	3,194,796
Employees' end of service benefits	144,487	145,000
Bonus	630,000	500,000
Directors' sitting fees	105,000	77,500
	4,074,283	3,917,296

For the year ended 31 December 2020, the Board of Directors determined the remuneration of Directors amounting to AED 3,700,000 (2019: 2,475,000).

b) Amounts due from related parties:

	<i>2020</i> <i>AED</i>	<i>2019</i> <i>AED</i>
Trade receivables	139,335	726,659
Advance paid	-	5,000,000
	139,335	5,726,659

The Company signed memorandum of understanding/pre-sales agreement and given refundable advance of AED 5,000,000 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.

22 CONTINGENCIES AND COMMITMENTS

Contingent liabilities

At 31 December 2020, the Company had contingent liabilities in respect of banks amounting to AED 2,124,372 (31 December 2019: AED 1,750,000) from which it is anticipated that no material liabilities will arise.

Legal claim contingency

The Company 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.

Capital commitments

At 31 December 2020, the Company had capital commitments in respect of purchase of property, plant and equipment amounting to AED 1,601,326 (31 December 2019: AED 560,005).

23 SEGMENTAL REPORTING

The Company 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 statement of financial position, statement of profit or loss, statement of comprehensive income and notes to the financial statements.

IFRS also requires an entity to report its segment assets and revenues along geographical regions. All significant activities of the Company 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 period ended 31 December 2020, revenue from no customer accounts for 10% or more of the Company's total revenue (31 December 2019: Revenue from no customer accounts for 10% or more of the Company's total revenue).

24 RISK MANAGEMENT

The Company's principal financial liabilities comprise trade and other payable and lease liabilities. The Company 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 Company'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 Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company does not hold or issue derivative financial instruments for speculative purpose.

The Company 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 2020 and 2019. The senior management of the Company reviews and agrees policies for managing each of these risks which are summarised in the next page.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24 RISK MANAGEMENT (continued)

Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing assets and liabilities.

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

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the Company'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 Company's equity.

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year</i>
2020		
AED	+100	1,056,000
AED	-100	(1,056,000)
2019		
AED	+100	826,500
AED	-100	(826,500)

Credit risk

The Company 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 Company 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 statement of financial position.

With respect to credit risk arising from other financial assets of the Company, including cash and cash equivalents and investment securities measured at fair value through OCI, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	<i>2020 AED</i>	<i>2019 AED</i>
Bank balances and deposits	114,918,394	84,403,000
Trade receivables	73,657,485	72,516,182
Investment securities	983,982	252,067
Amounts due from related parties	139,335	5,726,659
Staff receivables	71,422	136,621
Other receivables	1,734,969	2,052,015
	191,505,587	165,086,544

Liquidity risk

The Company limits its liquidity risk by ensuring that adequate internally generated funds, bank facilities and funds from the shareholders are available. The Company'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.

United Foods Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

<i>At 31 December 2020</i>	<i>Less than 1 year AED</i>	<i>1 to 5 years AED</i>	<i>>5 years AED</i>	<i>Total AED</i>
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

<i>At 31 December 2019</i>	<i>Less than 1 year AED</i>	<i>1 to 5 years AED</i>	<i>>5 years AED</i>	<i>Total AED</i>
Trade and other payables	31,999,137	-	-	31,999,137
Lease liabilities	1,932,886	5,523,539	12,467,332	19,923,757
Total	33,932,023	5,523,539	12,467,332	51,922,894

Equity price risk

The Company is exposed to equity securities price risk in respect of investments held by the Company classified as available for sale in the statement of financial position. The Company's investments in equity securities are publicly traded and are listed in stock exchanges in the UAE and Oman.

The Company's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company 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 Company's senior management on a regular basis. The Company'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 983,982 (2019: AED 252,067). A decrease of 10% in the market index could have an impact of approximately AED 98,398 (2019: AED 25,207) on the other comprehensive income or equity attributable to the Company, 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 Company 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 Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Company 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 311,662,472 as at 31 December 2020 (2019: AED 285,299,666).

United Foods Company (PSC)**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2020

25 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 Company 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 2020, the Company 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	-	-

As at 31 December 2019, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2019 AED	Level 1 AED	Level 2 AED	Level 3 AED
Quoted equity securities				
Investments and Financial Services Sector	242,500	242,500	-	-
Marine Terminal Operations Sector	9,567	9,567	-	-
Total	252,067	252,067	-	-

During the years ended 31 December 2020 and 31 December 2019, there were no transfers between the various levels of fair value measurements.

26 FIDUCIARY ASSETS

As at 31 December 2020, the Company held 3.09 MT (31 December 2019: 2.28 MT) raw materials, in a fiduciary capacity on behalf of third parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

27 RECLASSIFICATION

Certain line items in the statement of financial position have been reclassified with retrospective effect to comply with International Financial Reporting Standards and improve the quality of information presented.

Statement of financial position As at 31 December 2019	As previously reported AED	Reclassification AED	As currently reported AED
<i>Netting-off certain receivables and payables accounts</i>			
Trade and other receivables	79,518,500	(1,563,070)	77,955,430
Trade and other payables	36,740,379	(1,563,070)	35,177,309