

**Unikai Foods (P.J.S.C.)
and its subsidiary**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019



يونيكاي للأغذية (شركة مساهمة عامة) UNIKAI FOODS P.J.S.C.

DIRECTORS REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to present the Directors Report of the company for the year 2019. During the year 2019, the company has seen a significant improvement and turnaround comparing to the year 2018 in terms of financial and operational performance despite of very tough market conditions. The management's efforts, together with the support the Board, are showing through the good results which the company has been able to achieve in 2019. The company has once again returned to profitability after losses declared in 2018. Throughout the financial year 2019, the management has focused on developing the core business of the company, improving margins, product and fleet rationalization and cost control with the objective of delivering a profitable year and has been successful in doing so. Overall, it was a year of sustained performance with considerable come back all across.

KEY FINANCIAL HIGHLIGHTS

The key financial highlights of year 2019 are as follows

| | 2019 | 2018 |
|----------------------|---------|----------|
| Revenue | 312,066 | 342,108 |
| Gross margin | 106,301 | 97,189 |
| EBITDA | 27,847 | (5,176) |
| Net operating profit | 4,725 | (28,885) |
| Net profit | 515 | (20,392) |

AED'000s

The revenue on comparable basis has declined by 9% driven by conscious efforts made by the management to rationalize and discontinue low margin products and loss making customers. This decline in revenue has worked to our advantage and helped us to improve the overall gross margins. The gross margins have improved from 28% in 2018 to 34% in 2019, an improvement of 6%. EBITDA has improved significantly by AED 33 million. The net operating profit has shown a significant turnaround from a loss of AED 28.9 million in 2018 to a profit of AED 4.7 million in 2019. This has been achieved because of better pricing policies, better yields and effective cost saving measures throughout distribution, supply chain and administration. We have taken decisive actions to improve underperforming businesses through innovation, better customer understanding and, when needed, management changes and restructuring.



يونيكاي للأغذية (شركة مساهمة عامة) UNIKAI FOODS P.J.S.C.

Net profits improved from a loss of AED 20.3 million in 2018 to a profit of AED 0.5 million in 2019. Additionally, we have been successfully able to reduce the bank borrowings by AED 28.6 million during the year.

The year has been a transformative year with introduction of the Excise tax on the sweetened beverages covering a significant part of our product portfolio. The company is now focusing on several initiatives in promoting healthy products. One of such initiative is to develop 100% fruit based juices and drinks and to eliminate sugar based beverages out of the portfolio. The company also plans to invest in IT system and infrastructure and a part of that has already been started in 2019. To fuel our growth and improve returns, we have intensified our drive to find operational efficiencies and reduce structural costs. This reflects our belief that consumers should not pay for our inefficiencies. We have made good progress on our significant cost-reduction programs across the areas of administration, procurement and manufacturing which will be continued in coming years as a part of our innovations.

On behalf of the Board, I would like to thank the leaders of the UAE, His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister of the UAE and ruler of Dubai for providing conducive business environment and infrastructure which promotes business sustainability.

Further to that, I would like to thank our people and business partners. None of this would have been possible without their support, dedication and determination. I would like to thank our shareholders, for their overwhelming trust, support and confidence in the Board and the management of their company.

Warm Regards,

Mana Mohamed Saeed Al Mulla

Executive Vice-chairman of the Board



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIKAI FOODS (P.J.S.C)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Unikai Foods (P.J.S.C.) and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by another auditor who issued an unmodified audit report on those statements on 10 March 2019.

Key audit matters

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIKAI FOODS (P.J.S.C) (continued)

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

Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| Revenue recognition | |
| <ul style="list-style-type: none"> - Revenue is a material and an important determinant of the Group'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 Group generates revenue from sale of goods when the significant risks and rewards of ownerships is transferred to customers (refer note 2.4 to the consolidated 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. | <p>To address the above risk, we performed the following procedures among others:</p> <ul style="list-style-type: none"> - Tested the design and operating effectiveness of controls in respect of the Group's revenue and accounts receivable processes; - Performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals for rebates and discounts. - Performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to previous year; - Performed sales cut-off procedures and selected a sample of invoices before and after year-end to test whether sales are recorded in the appropriate period; - Inquired 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 UNIKAI FOODS (P.J.S.C) (continued)

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

Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p><i>Valuation of investments in unquoted equity securities classified as investments at fair value through profit or loss</i></p> <p>As at 31 December 2019, the Group had investments in unquoted equity securities classified as investments at fair value through profit or loss amounted to AED 16.3 million (2018: AED 17.3 million) and a valuation loss of AED 1 million on these unquoted equity securities was recognised in profit or loss for the year then ended.</p> <p>We identified the valuation of investments in unquoted equity securities classified as investments at fair value through profit or loss as a key audit matter due to significant judgement is involved in determining the inputs used in the valuation.</p> <p>The Group's investment in unquoted equity securities are stated at fair value based on valuations carried out by an independent valuer (the "Valuer"). The valuation involved significant management judgement in selecting appropriate valuation methodology and estimation involved in inputs used. Details of the valuation methodologies and key inputs used in the valuations are disclosed in note 13 to the consolidated financial statements.</p> | <p>To address the above risk, we performed the following procedures among others:</p> <ul style="list-style-type: none"> - assessing the reasonableness of the valuation of investments performed by an expert appointed by management, including challenging the valuation methodology used. We involved our internal property valuation specialists to assist in the assessments process. - Corroborating the inputs used in the valuation by an analysis of the historical performance of the underlying investee entity. - Assessing independence, objectivity, skills and experience of the expert used by the management in determining the valuation. - Assessing the adequacy of the disclosures in the consolidated financial statements. |

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIKAI FOODS (P.J.S.C) (continued)

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

Other information

Other information consists of the information included in the Directors' report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIKAI FOODS (P.J.S.C) (continued)

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIKAI FOODS (P.J.S.C) (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

The Group's accumulated losses reached more than 50% of its share capital and as required by the UAE Federal Law No. (2) of 2015, the Board of Directors will take a special decision from the shareholders in the Annual General Meeting to continue the activities of the Group.

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Articles of Association of the Company;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the books of account of the Group;
- v) investments in shares and stocks during the year ended 31 December 2019 are disclosed in note 13 to the consolidated financial statements;
- vi) note 24 to the consolidated financial statements reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNIKAI FOODS (P.J.S.C) (continued)**

Report on Other Legal and Regulatory Requirements (continued)

viii) The Group made no social contributions during the year.

For Ernst & Young
Signed by:



Hari Thodla Gopal
Partner
Registration No. 689

22 March 2020

Dubai, United Arab Emirates

Unikai Foods (P.J.S.C.) and its subsidiary
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2019

| | <i>Notes</i> | 2019 AED 000 | 2018 AED 000 |
|--|--------------|-------------------------------|-------------------------------|
| Revenue from contracts with customers | 4 | 312,066 | 342,108 |
| Cost of Sales | 5 | (205,765) | (244,919) |
| Gross Profit | | 106,301 | 97,189 |
| Administrative, selling and distribution expenses | 6 | (95,778) | (113,984) |
| Impairment loss on trade receivables | | (5,798) | (12,090) |
| Operating profit / (loss) for the period | | 4,725 | (28,885) |
| Finance costs, net | 21 | (10,890) | (9,090) |
| Gain on fair valuation of investment property | 9 | 2,100 | 10,934 |
| Loss on fair valuation of investments through profit or loss | 13 | (1,039) | 3,413 |
| Other income | 7 | 4,292 | 3,651 |
| Loss for the year before tax | | (812) | (19,977) |
| Tax credit / (expense) | 23 | 1,327 | (415) |
| Profit / (loss) for the year | | 515 | (20,392) |
| Profit / (loss) attributable to: | | | |
| Owners of the Company | | 515 | (20,392) |
| Earnings per share | | | |
| Earnings / (loss) per share-basic (AED) | 26 | 0.02 | (0.63) |

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | <i>Note</i> | 2019 AED 000 | 2018 AED 000 |
|--|-------------|-------------------------|-------------------------|
| Profit / (loss) for the year | | 515 | (20,392) |
| Other comprehensive income: | | | |
| <i>Items not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Revaluation of a building | 8 | - | 6,188 |
| <i>Other comprehensive income for the year</i> | | - | 6,188 |
| Total comprehensive income / (loss) for the year | | 515 | (14,204) |
| Total comprehensive income / (loss) attributable to: | | | |
| Owners of the Company | | 515 | (14,204) |

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | 2019 AED 000 | 2018 AED 000 (Reclassified) |
|--|-------|-----------------------|-----------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 35,498 | 34,979 |
| Investment properties | 9 | 32,700 | 30,600 |
| Right-of-use assets | 10 | 53,360 | - |
| Deferred tax asset | 23 | 1,612 | - |
| | | <u>123,170</u> | <u>65,579</u> |
| Current assets | | | |
| Inventories | 11 | 29,837 | 34,170 |
| Trade and other receivables | 12 | 57,374 | 64,716 |
| Investments at fair value through profit or loss | 13 | 16,261 | 17,300 |
| Due from a related party | 24 | 129 | 198 |
| Cash and cash equivalents | 14 | 11,072 | 16,673 |
| | | <u>114,673</u> | <u>133,057</u> |
| TOTAL ASSETS | | <u>237,843</u> | <u>198,636</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 15 | 32,368 | 32,368 |
| Statutory reserve | 16 | 2,366 | 2,366 |
| Restricted reserve | 17 | 792 | 792 |
| Revaluation surplus | 18 | 6,188 | 6,188 |
| Accumulated losses | | (19,129) | (19,644) |
| Total equity | | <u>22,585</u> | <u>22,070</u> |
| Non-current liabilities | | | |
| Employees' end of service benefits | 19 | 7,293 | 7,527 |
| Lease liabilities | 20 | 43,598 | - |
| Long-term borrowings | 21 | 29,523 | - |
| | | <u>80,414</u> | <u>7,527</u> |
| Current liabilities | | | |
| Short-term borrowings | 21 | 60,078 | 118,176 |
| Trade and other payables | 22 | 57,774 | 48,585 |
| Due to related parties | 24 | 1,380 | 1,576 |
| Lease liabilities | 20 | 14,625 | - |
| Provision for income tax | 23 | 987 | 702 |
| | | <u>134,844</u> | <u>169,039</u> |
| Total Liabilities | | <u>215,258</u> | <u>176,566</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>237,843</u> | <u>198,636</u> |

Director

21 MAR 2020

Director

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital AED '000 | Statutory reserve AED '000 | Restricted reserve AED '000 | Revaluation surplus AED '000 | Accumulated losses AED '000 | Fair value reserve AED '000 | Total AED '000 |
|---|------------------------------|----------------------------------|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|-------------------|
| Balance as at 1 January 2019 | 32,368 | 2,366 | 792 | 6,188 | (19,644) | - | 22,070 |
| Profit for the year | - | - | - | - | 515 | - | 515 |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - | 515 | - | 515 |
| Balance as at 31 December 2019 | 32,368 | 2,366 | 792 | 6,188 | (19,129) | - | 22,585 |

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2019

| | Share capital AED '000 | Statutory reserve AED '000 | Restricted reserve AED '000 | Revaluation surplus AED '000 | Retained earnings/ (accumulated losses) AED '000 | Fair value reserve AED '000 | Total AED '000 |
|---|------------------------------|----------------------------------|-----------------------------------|------------------------------------|--|-----------------------------------|-------------------|
| Balance as at 1 January 2018 – as previously reported | 32,368 | 2,366 | 792 | - | 1,659 | (1) | 37,184 |
| <i>Adjustment on initial application of IFRS 9:</i> | | | | | | | |
| Recognition of expected credit losses | - | - | - | - | (7,598) | - | (7,598) |
| Change in fair value of investments | - | - | - | - | 8,291 | 1 | 8,292 |
| Total adjustment on initial application of IFRS 9 | - | - | - | - | 693 | 1 | 694 |
| Adjusted balance as at 1 January 2018 | 32,368 | 2,366 | 792 | - | 2,352 | - | 37,878 |
| Loss for the period | - | - | - | - | (20,392) | - | (20,392) |
| Other comprehensive income | - | - | - | 6,188 | - | - | 6,188 |
| Total comprehensive income for the year | - | - | - | 6,188 | (20,392) | - | (14,204) |
| Dividends declared and transferred to other payables (note 15) | - | - | - | - | (1,457) | - | (1,457) |
| Directors' fee payable (note 15) | - | - | - | - | (147) | - | (147) |
| Balance as at 31 December 2018 | 32,368 | 2,366 | 792 | 6,188 | (19,644) | - | 22,070 |

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

| | Notes | 2019 AED'000 | 2018 AED'000 |
|---|-------|-----------------|-----------------|
| OPERATING ACTIVITIES | | | |
| Loss for the year before tax | | (812) | (19,977) |
| Adjustments for: | | | |
| Depreciation | 8 | 5,977 | 5,711 |
| Depreciation on right-to-use assets | 10 | 11,792 | - |
| Expected credit losses on trade receivables | | 5,798 | 12,090 |
| Dividend Income | | (197) | (329) |
| Gain on fair value of investment properties | | (2,100) | (10,934) |
| Loss/ (gain) on fair valuation of investments | | 1,039 | (3,413) |
| Gain on disposal of property, plant and equipment | | (62) | (103) |
| Finance costs, net | | 10,890 | 9,090 |
| Provision for employees' end of service benefits | | 998 | 1,198 |
| Retirement of leases | | (193) | - |
| | | <u>33,130</u> | <u>(6,667)</u> |
| Working capital changes: | | | |
| Inventories | | 4,333 | 29,578 |
| Trade and other receivables | | 1,276 | 3,627 |
| Due from a related party | | 69 | (14) |
| Trade and other payables | | 9,635 | (4,558) |
| Due to related parties | | (196) | 1,363 |
| | | <u>48,247</u> | <u>23,329</u> |
| Cash generated from operations | | (1,232) | (1,079) |
| Employees' end-of-service benefits paid | | - | (147) |
| Directors' fee paid | | | |
| | | <u>47,015</u> | <u>22,103</u> |
| Net cash generated from operating activities | | | |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 6 | (6,511) | (5,742) |
| Proceeds from disposal of property, plant and equipment | | 77 | 165 |
| Costs of construction of an investment property | | - | (7,166) |
| Dividend received | | 197 | 329 |
| | | <u>(6,237)</u> | <u>(12,414)</u> |
| Net cash used in investing activities | | | |
| FINANCING ACTIVITIES | | | |
| Borrowings, net | | (16,123) | (4,318) |
| Dividend paid | | - | (1,457) |
| Finance cost paid | | (8,855) | (9,037) |
| Lease liabilities paid | | (8,949) | - |
| | | <u>(33,927)</u> | <u>(14,812)</u> |
| Net cash used in financing activities | | | |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 6,851 | (5,123) |
| Cash and cash equivalents at 1 January | | 1,090 | 6,213 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 14 | 7,941 | 1,090 |

The attached notes 1 to 31 form part of these consolidated financial statements.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

1 ACTIVITIES

Unikai Foods (P.J.S.C.) (the “Company”) is a Public Shareholding Company, incorporated on 11 April 1977 by a Decree issued by His Highness, The Ruler of Dubai. The Company’s equity securities are listed on Dubai Financial Market. The Company holds 100% equity in Unikai and Company LLC (the “Subsidiary”), registered as a limited liability company in the Sultanate of Oman under Commercial Register No. 3/74. The Company and its subsidiary are collectively referred to as the “Group”.

The Group is engaged in the manufacturing of dairy, juice and ice cream products and import of various kinds of food products for distribution throughout the Gulf and other countries. The trading activities of the Group are carried on in the name of “Unikai International” for which the Company holds two separate trade licenses with the names “Unikai International P.J.S.C.” and “Unikai International LLC”. The registered address of the Company is P.O. Box 6424, Dubai, UAE.

The consolidated financial statements have been approved by the Board of Directors on 21 March 2020.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and investment at fair value through profit or loss that have been measured at fair value. The consolidated financial statements are presented in Arab Emirates Dirhams (AED) and all values are rounded to the nearest thousand (AED’000), except when otherwise indicated.

The consolidated financial statements have been presented in Arab Emirates Dirham (“AED”), which is the Company’s functional and presentation currency, and all the values are rounded to the nearest thousand (AED ‘000) except where otherwise stated.

Future outlook

Although the Group has incurred loss before tax for the year ended 31 December 2019 and it has accumulated losses and net current liability position as of that date, the management of the Group is confident that the Group would be able to generate sufficient cashflows to meet its obligations through sustainable and profitable sales volume, continuing from trends for the year 2019.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.3 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 previous year financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective for annual period beginning on or after as of 1 January 2019, as listed below.

New and amended standards and interpretations

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

The Group has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. All right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for prepaid or accrued lease expenses). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. All right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for prepaid or accrued lease expenses). Each lease payment is allocated between the liability and finance cost. The finance cost is charged

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

IFRS 16 Leases (continued)

to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

On adoption of IFRS 16 using the modified retrospective transition approach as of 1 January 2019, as explained above, the Group recognised the following assets and liabilities:

| | AED'000 (Unaudited) |
|---|------------------------|
| Right-of-use assets cost (Note 10) | 46,330 |
| Leased liabilities recognised (Note 20) | 46,062 |
| Adjustment of prepayments | 268 |
| | 46,330 |

There was no impact on the statement of equity of the Group as all right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for prepaid or accrued lease expenses).

Following is the impact on the consolidated statement of income for the ended 31 December 2019:

| | 2019 AED'000 |
|---|-----------------|
| Depreciation expense on right-of-use assets (under IFRS 16) | (11,792) |
| Finance costs (under IFRS 16) | (2,481) |
| Rental – operating lease (under IAS 17) | 11,569 |
| Net impact on profit for the year | (2,704) |

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating leases. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Other amendments and interpretations

Although the below amendments and interpretations applied for the first time in 2019, they did not have a material impact on the annual consolidated financial statements of the Group.

- IFRIC Interpretation 23: *Uncertainty over Income Tax Treatment*
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28: *Long-term interests in associates and joint ventures*
- Amendments to IFRS 3: *Business Combinations*
- Amendments to IFRS 11: *Joint Arrangements*
- Amendments to IAS 12: *Income Taxes*
- Amendments to IAS 23: *Borrowing Costs*

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective

There are several standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements and are not expected to have any significant impact on the Group's consolidated financial statements when they become effective, and accordingly, have not been listed in these consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in the 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 current when:

- It is expected to be settled in the 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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Fair value measurement

The Group measures financial instruments, such as financial assets at fair value through profit or loss, at fair value at each date of statement of financial position.

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

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

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

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

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

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Fair value measurement (continued)

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The 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 3.

Sale of goods

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

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

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

• Rights of return

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

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Revenue from contracts with customers (continued)

- **Volume rebates**

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Dividend income

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

Rental income

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

Contract balances

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section (I) Financial instruments – initial recognition and subsequent measurement.

Value added tax

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

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

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

Foreign currencies

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

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Foreign currencies (continued)

Transactions and balances (continued)

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

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

Group company

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives.

Likewise, when a major inspection is performed, its cost is recognized 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 recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of all property, plant and equipment as follows:

| | |
|---|---------------|
| Buildings and improvements | 30 years |
| Plant and equipment | 10 – 20 years |
| Transportation and distribution equipment | 3 - 6 years |
| Furniture, fixtures and office equipment | 7 years |

Land is not depreciated.

Capital-work in progress is stated at cost. When commissioned, capital work in progress is transferred to property, plant and equipment and depreciated in accordance with its estimated useful life.

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

The residual values, useful lives and method of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Investment properties

Investment properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties. The cost of self-constructed investment properties include the cost of materials and direct labour, any other costs directly attributable to bringing the investment properties to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) are recognised in profit or loss. When the use of a properties change from owner-occupied to investment property, the property is reclassified as investment property and carried at fair value, subsequently. On the day of the transfer, any resulting fair valuation gain is carried as revaluation surplus under equity. Subsequent changes in the fair value are recorded in profit or loss. The revaluation surplus is transferred to retained earnings upon disposal/sale of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Leases

Before 1 January 2019

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

Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

| | |
|--------------------------------------|------------|
| ➤ Land, Buildings and infrastructure | 5-30 years |
| ➤ Vehicles | 3-5 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Leases (continued)

The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (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 equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Before and from 1 January 2019

Group as a lessor

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

At the commencement of a finance lease term, the Group records a finance lease receivable in the consolidated statement of financial position at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting the constant periodic rate of return on the lessor's net investment in the finance lease.

An operating lease is a lease other than a finance lease. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its non-operating nature.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impairment of non-financial assets (continued)

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

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined as follows:

Raw materials, packaging materials, trading stocks, consumable stocks and, spare parts

The cost includes insurance, freight and other incidental charges incurred in acquiring the inventories and bringing them to their present location and condition. Cost is determined on a weighted average basis.

Finished goods and semi-finished goods

The cost of finished goods is arrived at on a weighted average cost basis and includes cost of direct materials and direct labour plus an appropriate share of production overheads based on normal operating capacity. Semi-finished goods are stated at cost of the materials and directly attributable overheads.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

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

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

Subsequent measurement

Financial assets at amortised cost (debt instruments)

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

The Group's financial assets at amortised cost includes trade and other receivables and due from related parties.

Financial assets designated at fair value through profit and loss (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through profit and loss. The classification is determined on an instrument-by-instrument basis.

Gains and losses on fair valuation of these financial assets are recognised in profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established.

The Group elected to classify irrevocably its listed equity investment under this category.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

1) 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 Group's consolidated statement of financial position) when:

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

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

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

Impairment

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

ii) Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, due to related parties and borrowings.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

1) Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

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 is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and term deposits

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts, if any.

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 income 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.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Employees' end of service benefits

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

Earnings per share

The Group presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (if any).

Government grants

Government grants are recognized at nominal value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.

Contingencies and commitments

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Determining method to estimate variable consideration and assessing the constraint

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

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

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

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

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

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Property lease classification – Group as lessor

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

Business model assessment

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables

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

The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the construction and real estate sectors, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 28.

Impairment of inventories

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

At the statement of financial position date, gross inventories at net realisable value were AED 31,021 thousands (2018: 35,458 thousands), and the provision for old and obsolete inventories was 1,184 thousands (2018: 1,288 thousands). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

Useful lives of property and equipment

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

Leases - Estimating the incremental borrowing rate

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

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

Unikai Foods (P.J.S.C.) and its subsidiary
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at t 31 December 2019

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

| | <i>2019</i> <i>AED 000</i> | <i>2018</i> <i>AED 000</i> |
|--------------------------------------|-------------------------------|-------------------------------|
| <i>Type of revenue</i> | | |
| Sale of goods | <u>312,066</u> | <u>342,108</u> |
| <i>Geographical market</i> | | |
| United Arab Emirates | 187,400 | 205,883 |
| Oman | 121,248 | 132,866 |
| Other | 3,418 | 3,359 |
| | <u>312,066</u> | <u>342,108</u> |
| <i>Timing of revenue recognition</i> | | |
| At a point in time | <u>312,066</u> | <u>342,108</u> |

The Group receives advances from customers which are classified as contract liabilities and included under trade and other payables (Note 22).

5 COST OF SALES

| | <i>2019</i> <i>AED 000</i> | <i>2018</i> <i>AED 000</i> |
|--|-------------------------------|-------------------------------|
| Manufacturing: | | |
| Raw material, packing materials and stores and spares consumed | 140,288 | 163,345 |
| Staff costs | 9,491 | 11,500 |
| Utilities | 7,278 | 11,021 |
| Depreciation (Note 8 (1)) | 3,105 | 2,129 |
| Other direct costs | 5,191 | 5,002 |
| | <u>165,353</u> | <u>192,997</u> |
| Changes in inventories of semi-finished and finished goods | 1,162 | 277 |
| (A) | <u>166,515</u> | <u>193,274</u> |
| Trading: | | |
| Inventories, beginning of the year | 5,166 | 11,579 |
| Purchases (including direct expenses) | 37,991 | 45,232 |
| Inventories, end of the year (refer to Note 11) | (3,907) | (5,166) |
| (B) | <u>39,250</u> | <u>51,645</u> |
| (A) + (B) | <u>205,765</u> | <u>244,919</u> |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

6 ADMINISTRATIVE, SELLING AND DISTRIBUTION EXPENSES

| | <i>2019</i> <i>AED'000</i> | <i>2018</i> <i>AED'000</i> |
|---|-------------------------------|-------------------------------|
| Staff salaries and benefits | 47,747 | 55,340 |
| Commercial vehicle expenses | 13,886 | 30,913 |
| Depreciation on right-of-use assets (note 10) | 11,792 | - |
| Depreciation (note 8 (1)) | 2,872 | 3,582 |
| Advertisement and other selling expenses | 558 | 747 |
| Other expenses | 18,923 | 23,402 |
| | <u>95,778</u> | <u>113,984</u> |

7 OTHER INCOME

| | <i>2019</i> <i>AED'000</i> | <i>2018</i> <i>AED'000</i> |
|----------------------|-------------------------------|-------------------------------|
| Rental Income | 3,609 | 2,520 |
| Dividend Income | 197 | 329 |
| Sale of scrap | 362 | 591 |
| Miscellaneous income | 124 | 211 |
| | <u>4,292</u> | <u>3,651</u> |

The rental income is earned from the lease of investment properties (Note 9) to third parties.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

8 PROPERTY, PLANT AND EQUIPMENT

| <i>Cost:</i> | <i>Land & buildings AED</i> | <i>Plant & equipment AED</i> | <i>Transportation & distribution equipments AED</i> | <i>Furniture fixtures & equipment AED</i> | <i>Capital work in progress AED</i> | <i>Total AED</i> |
|--|-------------------------------------|--------------------------------------|---|---|---|----------------------|
| At 1 January 2018 | 47,178 | 71,502 | 21,322 | 8,624 | 7,583 | 156,209 |
| Additions | 192 | 2,500 | 1,159 | 585 | 1,306 | 5,742 |
| Transfer to investment properties (Note 9) | (9,435) | - | - | - | - | (9,435) |
| Transfer from capital work in progress | 50 | 1924 | 79 | 91 | (2,144) | - |
| Disposals | (8) | (849) | (1,030) | (76) | - | (1,963) |
| At 31 December 2018 | 37,977 | 75,077 | 21,530 | 9,224 | 6,745 | 150,553 |
| Additions | - | 3,055 | 1,174 | 146 | 2,136 | 6,511 |
| Transfer from capital work in progress | 5 | 2,687 | - | 6 | (2,698) | - |
| Disposals | - | (148) | (1,038) | (16) | - | (1,202) |
| At 31 December 2019 | 37,982 | 80,671 | 21,666 | 9,360 | 6,183 | 155,862 |
| <i>Depreciation and Impairment:</i> | | | | | | |
| At 1 January 2018 | 36,293 | 58,210 | 13,346 | 7,038 | - | 114,887 |
| Charge for the year (1) (reclassified – Note 31) | 388 | 2,800 | 1,727 | 796 | - | 5,711 |
| Disposals | (8) | (795) | (1,022) | (76) | - | (1,901) |
| Transfer to investment properties (Note 9) | (3,123) | - | - | - | - | (3,123) |
| At 31 December 2018 (reclassified – Note 31) | 33,550 | 60,215 | 14,051 | 7,758 | - | 115,574 |
| Charge for the year (1) | 277 | 3,175 | 1,741 | 784 | - | 5,977 |
| Disposals | - | (148) | (1,023) | (16) | - | (1,187) |
| At 31 December 2019 | 33,827 | 63,242 | 14,769 | 8,526 | - | 120,364 |
| <i>Net carrying amounts</i> | | | | | | |
| At 31 December 2019 | 4,155 | 17,429 | 6,897 | 834 | 6,183 | 35,498 |
| At 31 December 2018 | 4,427 | 14,862 | 7,479 | 1,466 | 6,745 | 34,979 |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

8 PROPERTY, PLANT AND EQUIPMENT (continued)

(1) Depreciation charge for the year has been allocated to profit or loss as follows:

| | <i>2019</i> <i>AED '000</i> | <i>2018</i> <i>AED '000</i> |
|--|--------------------------------|--------------------------------|
| Cost of Sales (Note 5) | 3,105 | 2,129 |
| Administrative, selling and distribution expenses (Note 6) | 2,872 | 3,582 |
| | <u>5,977</u> | <u>5,711</u> |

- (2) During the last year, the Group has reclassified a labor accommodation building from property, plant and equipment to investment properties as a result of change in the use of the property. The property has been let to a third party. As at the date of transfer, the fair value of the property was measured and the resulting gain of AED 6,188 thousand (Note 9) was recognised in other comprehensive income. This has been presented as the revaluation surplus under equity in the consolidated statement of financial position.
- (3) The Government of Dubai has granted land to the Group for setting up manufacturing facilities that has been recorded at a nominal value.
- (4) Buildings include certain buildings constructed on land leased to the Group. The lease is renewable every year and management believes that the lease would be available to the Group on an on-going basis in the foreseeable future.
- (5) Capital work in progress represents costs incurred towards construction of warehouses and cooling system for the plant.
- (6) The Group continues to use fully depreciated property, plant and equipment having cost of AED 94,141 thousand (2018: AED 90,041).

9 INVESTMENT PROPERTIES

Investment properties comprise a labour accommodation and a warehouse that are leased to third parties under operating leases.

| | <i>Warehouse</i> <i>AED ' 000</i> | <i>Labour</i> <i>Accomadation</i> <i>AED ' 000</i> | <i>Total</i> <i>AED ' 000</i> |
|--|--------------------------------------|--|----------------------------------|
| Cost of development/construction | 7,166 | - | 7,166 |
| Reclassification from property, plant and equipment (Note 8) | - | 6,312 | 6,312 |
| Change in fair value recognised through other comprehensive income on transfer from property, plant and equipment (Note 8) | - | 6,188 | 6,188 |
| Gain on fair valuation of investment properties | 4,234 | 6,700 | 10,934 |
| Balance as at 1 January 2019 | 11,400 | 19,200 | 30,600 |
| Gain on fair valuation of investment properties | 600 | 1,500 | 2,100 |
| Balance as at 31 December 2019 | <u>12,000</u> | <u>20,700</u> | <u>32,700</u> |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

9 INVESTMENT PROPERTIES (continued)

Measurement of fair value

Fair value hierarchy

The fair value of investment properties was determined by an external, independent property valuer as at 31 December 2019, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. Related lease terms range from one year to five years renewable at mutually agreed terms.

The fair value measurement for both of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

Labour accommodation

Investment method approach was used to determine the fair value of labour accommodation. This valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate and expected maintenance costs. The expected net cash flows are discounted using a risk adjusted discount rate. Among other factors, the discount rate estimation considers the quality of a building and its location, tenant credit quality and lease term.

Significant unobservable inputs used in the income capitalization technique include:

- Expected market rental growth - Nil
- Void periods — 10% of market rent
- Expected maintenance costs 8% of market rent
- Risk-adjusted discount rates 11%

Warehouse building

Investment method approach was used to determine the fair value of warehouse. This valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate and expected maintenance costs. The expected net cash flows are discounted using a risk adjusted discount rate. Among other factors, the discount rate estimation considers the quality of a building and its location, tenant credit quality and lease term.

Significant unobservable inputs used in the income capitalization technique include:

- Expected market rental growth - Nil
- Void periods — 5% of market rent
- Expected maintenance costs 5% of market rent
- Risk-adjusted discount rates 9%

10 RIGHT-OF-USE ASSETS

| | <i>2019</i> <i>AED 000</i> |
|-----------------------------------|-------------------------------|
| At 1 January (Note 2.3) | 46,330 |
| Additions during the year | 21,221 |
| Less: depreciation for the year | (11,792) |
| Less: retirements during the year | (2,399) |
| At the end of the year | <u>53,360</u> |

The Group has lease contracts for various items of land, buildings and motor vehicles. Before the adoption of IFRS 16, the Group classified each of its said leases (as lessee) at the inception date as operating leases. In an operating lease, the leased items were not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

11 INVENTORIES

| | 2019 AED'000 | 2018 AED'000 |
|---|-----------------|-----------------|
| Raw materials and packing materials | 11,208 | 15,259 |
| Semi-finished goods | 1,706 | 1,706 |
| Finished goods | 5,960 | 6,771 |
| Trading goods | 3,907 | 5,166 |
| Consumables stores and spare parts | 6,400 | 6,556 |
| | <u>29,181</u> | <u>35,458</u> |
| Less: Provision for slow-moving inventories | (1,184) | (1,288) |
| | <u>27,997</u> | <u>34,170</u> |
| Goods-in-transit | 1,840 | - |
| | <u>29,837</u> | <u>34,170</u> |

A reconciliation of the movements in the provision for slow moving inventories is as follows:

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| At 1 January | 1,288 | 2,008 |
| Provision recorded during the year (included as part of cost of sales) | 47 | 737 |
| Inventories written off | (151) | (1,457) |
| | <u>1,184</u> | <u>1,288</u> |
| At 31 December | | |

12 TRADE AND OTHER RECEIVABLES

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| Trade receivables | 71,198 | 88,869 |
| Less: Provision for expected credit losses | (22,088) | (28,434) |
| | <u>49,110</u> | <u>60,435</u> |
| Advances, deposits and prepayments | 8,264 | 4,281 |
| | <u>57,374</u> | <u>64,716</u> |

Movements in provision for expected credit losses:

| | 2019 AED 000 | 2018 AED 000 |
|---|-----------------|-----------------|
| Balance as at 1 January under IAS 39 | 28,434 | 8,746 |
| Adjustment on initial application of IFRS 9 | - | 7,598 |
| | <u>28,434</u> | <u>16,344</u> |
| Balance as at 1 January under IFRS 9 | 5,114 | 12,090 |
| Net measurement of loss allowance | (11,460) | - |
| Written off | | |
| | <u>22,088</u> | <u>28,434</u> |
| Balance as at 31 December | | |

During the year ended 31 December 2019, the group written off receivables of AED 11,460 thousand (for the year ended 31 December 2018: AED Nil) against allowance for expected credit losses.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

13 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019 AED'000 | 2018 AED'000 |
|--|-----------------|-----------------|
| Balance at 1 January | 17,300 | 5,595 |
| <i>Adjustment on initial application of IFRS 9 recorded in equity:</i> | | |
| Change in fair value | - | 8,292 |
| <i>Included in profit or loss:</i> | | |
| Change in fair value | (1,039) | 3,413 |
| Balance at 31 December | 16,261 | 17,300 |

Investments represents unquoted equity instruments of an entity operating in dairy and poultry industry. The fair value of the investment was determined by an external valuer. The fair value of investments was measured by using capitalization of future maintainable earnings of the investee using a market valuation multiple. Valuation multiple is based on market expectations after considering conditions including the economy in general and the business and industry of the investee in particular, using market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in valuation techniques. Refer to note 29 for disclosure on fair value hierarchy of investments.

14 CASH AND CASH EQUIVALENTS

| | 2019 AED 000 | 2018 AED 000 |
|---------------------------|-----------------|-----------------|
| Cash in hand | 490 | 591 |
| Bank balances | 10,582 | 16,082 |
| | 11,072 | 16,673 |
| Bank overdrafts (note 21) | (3,131) | (15,583) |
| Cash and cash equivalents | 7,941 | 1,090 |

Bank balances include fixed deposits of AED 10,218 thousand (2018: AED 10,081 thousand) having an original maturity of less than three months and carry interest at normal commercial rates.

15 SHARE CAPITAL

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| <i>Authorised, issued and fully paid up</i> | | |
| 32,368 thousand ordinary shares of AED 1 each | | |
| (31 December 2017: 32,368 thousand shares of AED 1 each) | 32,368 | 32,368 |

Dividend declared

At the Annual General Meeting held on 24 April 2019, no dividend was approved for the year ended 31 December 2018.

Directors' fee

At the Annual General Meeting held on 22 March 2018, the shareholders also approved the directors' fee amounting to AED 0.15 million for the year ended 31 December 2017. The director's fee was paid during the prior period. At the Annual General Meeting held on 24 April 2019, no director's fee was approved for the year ended 31 December 2018.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

16 STATUTORY RESERVE

As required by the U.A.E. Federal Law No. (2) of 2015, 10% of the profit of the Company for the year is required to be transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. During 2019, no transfer (2018: AED Nil) has been made to statutory reserve since the Company has incurred accumulated losses in the previous years. The statutory reserve is not available for distribution.

17 RESTRICTED RESERVE

As required by the Law of the country where the subsidiary company is registered, 10% of the profit of the subsidiary for the year is required to be transferred to the statutory reserve (referred as 'Restricted reserve'). The Subsidiary may resolve to discontinue such annual transfers when the reserve equals 33% of the nominal value of the paid-up share capital of the subsidiary. During 2019, no transfer (2018: AED Nil) has been made to statutory reserve since the reserve already reached 33% of the nominal value of the paid-up share capital of the subsidiary. The statutory reserve is not available for distribution.

18 REVALUATION SURPLUS

The revaluation surplus included in equity is in respect of a labour accommodation building that was revalued at the time of transfer of the property to investment properties (Notes 8 and 9). The amount of surplus is non-distributable and is transferable to retained earnings upon disposal or otherwise derecognition of the related property.

19 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

| | 2019 AED 000 | 2018 AED 000 |
|--------------------------|-----------------|-----------------|
| At 1 January | 7,527 | 7,408 |
| Provided during the year | 998 | 1,198 |
| Paid during the year | (1,232) | (1,079) |
| At 31 December | 7,293 | 7,527 |

20 LEASE LIABILITIES

| | 2019 AED 000 |
|--|-----------------|
| At 1 January 2019 (Note 2.3) | 46,062 |
| Additions during the period | 21,221 |
| Add: finance cost | 2,481 |
| Less: payments during the period, net of prepayments and accruals adjustment | (8,949) |
| Less: retirements during the period | (2,592) |
| At 31 December 2019 | 58,223 |

Presented on consolidated statement of financial position as follows:

| | 2019 AED 000 |
|---------------------|-----------------|
| Current | 14,625 |
| Non-current | 43,598 |
| At 31 December 2019 | 58,223 |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

21 BORROWINGS

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| Long term borrowings: | | |
| Term loan | 54,397 | 46,253 |
| Less: short term portion of term loans | (24,874) | (46,253) |
| Long term portion of term loans | 29,523 | - |
| Short term borrowings: | | |
| Trust receipts | 32,073 | 56,340 |
| Bank overdrafts | 3,131 | 15,583 |
| Current portion of term loans | 24,874 | 46,253 |
| | 60,078 | 118,176 |

During the year, the Group has restructured certain facilities with one of its lenders for trust receipts of AED 30,887 thousand, overdraft of AED 8,261 thousand, term loan of AED 7,592 thousand and related costs for another term loan of AED 46,740 thousand, to be repaid in 46 monthly installments of AED 1,000 thousand each commenced on 25 August 2019, with final installment of AED 740 thousand on maturity of loan. The loan carries interest at the rate of 1 month EIBOR plus 3.75%.

Bank borrowings are secured by mortgages over plant and machinery, hypothecation of inventories and assignment of receivables.

Term loan is also subject to certain financial covenants including minimum tangible networth of AED 35 million, current ratio of 1.25, leverage ratio not to exceed 3:5, debt to EBITDA not to exceed 4.25 and debt to equity of 3.5. Testing for compliance with the above financial covenants is done annually on 31 December. Before 31 December 2019, the Group has obtained a covenants waiver letter from the bank for not cancelling or accelerating the term loan due to non-compliance of financial covenants as of and for the year ended 31 December 2019.

Finance costs incurred by the Group is as follows:

| | 2019 AED 000 | 2018 AED 000 |
|-------------------------------------|-----------------|-----------------|
| Term loan | 3,670 | 2,082 |
| Trust receipts | 2,608 | 4,960 |
| Bank overdrafts | 735 | 668 |
| Leased liabilities | 2,481 | - |
| Other charges | 1,740 | 1,432 |
| Interest received on fixed deposits | (344) | (52) |
| | 10,890 | 9,090 |

22 TRADE AND OTHER PAYABLES

| | 2019 AED 000 | 2018 AED 000 (Reclassified) |
|--|-----------------|-----------------------------------|
| Trade payables | 49,824 | 35,751 |
| Accruals and other payables | 7,640 | 12,258 |
| Dividend payable | 256 | 256 |
| Contract liabilities - advance received from customers | 54 | 320 |
| | 57,774 | 48,585 |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

22 TRADE AND OTHER PAYABLES (continued)

Provision for depreciation of AED 611 thousand for the year ended and as of 31 December 2018, on temporarily idle property, plant and equipment was classified as other provision under 'Trade and other payables' instead of adding to accumulated depreciation through depreciation charge for the year 2018 under 'Property, plant and equipment'. Those have been appropriately reclassified in comparative information.

23 INCOME TAX

The Group is not subject to tax in UAE. The provision for taxation is in respect of the Group's operations carried out by the subsidiary in the Sultanate of Oman ("Oman"). The Subsidiary is liable to income tax in accordance with the income tax laws of the Sultanate of Oman.

The major components of income tax expense for the years ended 31 March 2019 and 2018 are:

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| <i>Current income tax</i> | | |
| Current income tax charge – relating to current year | - | (415) |
| – relating to prior years | (285) | - |
| <i>Deferred income tax</i> | | |
| Deferred tax | 1,612 | - |
| Tax credit / (expense) | 1,327 | (415) |

Deferred tax asset of AED 1,612 thousand is recognized as of 31 December 2019, for unused carried forward tax losses of AED 3,476 thousand and other temporary timing differences of AED 7,273 thousand, at the prevailing tax rate based on the management's assessment to utilise against expected tax profits in following years.

Following is the reconciliation of tax on accounting profit and taxable profit:

| | 2019 AED 000 | 2018 AED 000 |
|---|-----------------|-----------------|
| Loss for the year before taxation | (812) | (19,997) |
| Less: Loss for the year before taxation from non-tax jurisdiction | (4,228) | (22,204) |
| Profit for the year before taxation from taxable jurisdiction | 3,416 | 2,207 |
| Income tax as per tax rates of 15% | 512 | 331 |
| <i>Tax effect of:</i> | | |
| Disallowed costs/expenses, net | 100 | 84 |
| Carried forward losses utilized | (612) | - |
| Current year income tax charge | - | 415 |
| | 2019 AED 000 | 2018 AED 000 |
| Movements in the provision during the year | | |
| Balance at the beginning of the year | 702 | 287 |
| Provided during the year | 285 | 415 |
| | 987 | 702 |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

23 INCOME TAX

The Subsidiary's tax assessments have not been finalised for the years from 2013 up to tax year 2018. The management has estimated that the provision for taxation of AED 987 thousand (31 December 2018: AED 702 thousand) as at reporting date is adequate to meet the Subsidiary's tax liabilities.

24 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise directors, key management personnel and other related parties.

Significant related party transactions during the year were as follows:

| | 2019 AED 000 | 2018 AED 000 |
|--------------------------------|-----------------|-----------------|
| Other related parties: | | |
| Purchases from related parties | 4,539 | 6,132 |
| Sales to related party | 576 | 889 |

Compensation to key management personnel is as follows:

The remuneration of members of key management during the year was as follows:

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| Short term benefits (salaries) paid to an Executive Director | 868 | 1,200 |
| Short term benefits – Other key management personnel | 1,789 | 2,381 |
| Provision towards staff terminal benefits | 58 | 70 |
| | 2,715 | 3,651 |

Balances with related parties included in the statement of financial position are as follows:

| | 2019 AED 000 | 2018 AED 000 |
|--|-----------------|-----------------|
| Due from a related party – under common directorship | 129 | 198 |
| Due to related parties – under common directorship | 1,380 | 1,576 |
| Other payables | | |
| - Key management personnel | 336 | 479 |

Other payables to key management personnel are included in other payables under 'Trade and other payables' (Note 22).

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2019, the Group has not recorded any impairment of amounts owed by related parties (2018: AED Nil). This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

25 CONTINGENCIES AND COMMITMENTS

| | 2019 AED 000 | 2018 AED 000 |
|----------------------|-----------------|-----------------|
| Letters of guarantee | 4,058 | 4,058 |
| Letters of credit | 6,449 | 7,041 |
| | <u>10,507</u> | <u>11,099</u> |

Legal cases

As at 31 December 2019, the Group has few outstanding legal cases. All these cases are pending before the Court for the hearings and final decisions. The management has reviewed the status of all of these legal cases and believes that no additional provision is required as at 31 December 2019 (31 December 2018: Nil).

Capital Commitments

The capital commitments outstanding represents the costs to be incurred towards construction of warehouses and cooling system for the plant.

| | 2019 AED 000 | 2018 AED 000 |
|---------------------|-----------------|-----------------|
| Capital Commitments | <u>6,487</u> | <u>9,351</u> |

Operating leases

i. Leases as lessee

The Group recognizes leases as operating lease for retail shops, office premises, warehouses and distribution vehicles when it typically run for a period of one year or less or is for a insignificant value.

ii. Leases as lessor

The Group has leased out a labour accommodation and a warehouse building classified as investment properties (refer note 9).

Future minimum lease payments

At 31 December, the future minimum lease payments under non-cancellable leases are receivable as follows:

| | 2019 AED 000 | 2018 AED 000 |
|----------------------------|-----------------|-----------------|
| Less than one year | 3,800 | 3,799 |
| Between one and five years | - | 3,000 |
| | <u>3,800</u> | <u>6,799</u> |

26 BASIC EARNINGS PER SHARE

| | 2019 | 2018 |
|--|---------------|-----------------|
| Net profit/(loss) attributable to owners of the Company (AED '000) | <u>515</u> | <u>(20,392)</u> |
| Weighted average number of shares outstanding | <u>32,368</u> | <u>32,368</u> |
| Profit/(loss) per share - basic (AED) | <u>0.02</u> | <u>(0.63)</u> |

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

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

27 SEGMENTAL REPORTING

The Group operates in the single reporting segment of dairy, juice, ice cream, and other food products. All the relevant information relating to this reporting/operating segment is disclosed in the consolidated statement of financial position, consolidated income statement, consolidated statement of profit or loss and other comprehensive income and notes to the consolidated financial statements.

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

Additional information required by IFRS 8, "Segment reporting", is disclosed below:

Major customers

During the year ended 31 December 2019 there were no customers of the Group with the revenues greater than 10% of the total revenue of the Group (2018: Nil).

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, lease liabilities, due to related parties and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables, due from related party, investments at fair value through profit or loss and bank balances that derive directly from its operations.

The Group is exposed to interest risk, credit risk, liquidity risk, market risk and operational risk. The Board of Directors has the overall responsibility for the Group and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group is exposed to interest risk on its interest bearing assets and liabilities (bank deposits and bank borrowings respectively).

The following table demonstrates the sensitivity of the statement of comprehensive income to reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2019 and 31 December 2018.

There is no impact on the Group's equity.

| | <i>Increase/ decrease in basis points</i> | <i>Effect on profit for the year AED '000</i> |
|-------------|---|---|
| 2019 | +100 | (793) |
| | -100 | 793 |
| 2018 | +100 | (1,182) |
| | -100 | 1,182 |

Credit risk

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments. The Group manages its credit risk exposure through diversification of its investments and deposits to avoid concentration of risk with institutions or group of institutions in specific location or business.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2019 and 2018 is the carrying amounts of the financial assets as follows:

| | 2019 AED 000 | 2018 AED 000 |
|-----------------------------|-----------------|-----------------|
| Trade and other receivables | 51,621 | 60,025 |
| Cash in bank | 10,582 | 16,082 |
| Due from related parties | 129 | 198 |
| | 62,332 | 76,305 |

Bank balances

The Group seeks to limit its credit risk with respect to bank balances by only dealing with reputable banks.

Trade and other receivables

The Group seeks to limit its credit risk with respect to trade receivables by continuously monitoring the terms of the payments for the outstanding amounts.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment.

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

31 December 2019

| | Total AED'000 | Neither past due nor impaired AED'000 | Past due but not impaired | | | | |
|--|------------------|---|---------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------|
| | | | <30 days AED'000 | 30 to 60 days AED'000 | 61 to 90 days AED'000 | 91 to 120 days AED'000 | >120 days AED'000 |
| Expected credit loss rate | 31.0% | 2.5% | 10.2% | 15.3% | 20.2% | 26.0% | 58.0% |
| Estimated total gross carrying amount at default | 71,198 | 19,777 | 7,837 | 5,586 | 3,701 | 2,163 | 32,134 |
| Expected credit loss | 22,088 | 488 | 800 | 855 | 746 | 563 | 18,636 |

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

31 December 2018

| | Total AED '000 | Neither past due nor impaired AED '000 | Past due but not impaired | | | | |
|--|-------------------|--|---------------------------|------------------------------|------------------------------|-------------------------------|--------------------------|
| | | | <30 days AED '000 | 30 to 60 days AED '000 | 61 to 90 days AED '000 | 91 to 120 days AED '000 | >120 days AED '000 |
| Expected credit loss rate | 32.0% | 8.9% | 5.9% | 26.9% | 45.1% | 55% | 66.2% |
| Estimated total gross carrying amount at default | 88,869 | 25,990 | 16,422 | 9,939 | 9,326 | 11,050 | 16,142 |
| Expected credit loss | 28,434 | 2,315 | 974 | 2,675 | 4,206 | 6,078 | 12,186 |

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

Due from related parties

Due from related party relates to transactions arising in the normal course of business with minimal credit risk.

Liquidity risk

The Group limits its liquidity risk by retaining sufficient funds generated from its operations. Accounts payable are settled on normal credit terms agreed with suppliers. The table below summarizes the maturities of the Group's undiscounted financial liabilities at the reporting date, based on contractual payment dates.

| 31 December 2019 | less than 3 months AED '000 | 4 to 12 months AED '000 | 1-5 years AED '000 | Total amount AED '000 |
|--------------------------|-----------------------------------|-------------------------------|--------------------------|--------------------------------|
| Bank borrowings | 23,498 | 39,576 | 31,843 | 94,917 |
| Trade and other payables | - | 57,464 | - | 57,464 |
| Due to related parties | 1,380 | - | - | 1,380 |
| Lease liabilities | 3,748 | 14,990 | 46,754 | 65,492 |
| | 28,626 | 112,030 | 78,597 | 219,253 |
| 31 December 2018 | less than 3 months AED '000 | 4 to 12 months AED '000 | 1-5 years AED '000 | Carrying amount AED '000 |
| Bank borrowings | - | 126,648 | - | 126,648 |
| Trade and other payables | - | 48,876 | - | 48,876 |
| Due to related parties | 1,576 | - | - | 1,576 |
| | 1,576 | 175,524 | - | 177,100 |

Unikai Foods (P.J.S.C.) and its subsidiary
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2019

29 FAIR VALUE MEASUREMENT

Financial risk management

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand and bank balances, trade and other receivables, due from a related party and investments at fair value through profit and loss. Financial liabilities consist of borrowings, trade and other payables, lease liabilities and due to related parties. The fair values of financial instruments are not materially different from their carrying values.

Fair value hierarchy

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

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

As at 31 December 2019, the Group held the following assets are measured at fair value:

Assets measured at fair value

| | <i>31 December 2019 AED'000</i> | <i>Level 1 AED'000</i> | <i>Level 2 AED'000</i> | <i>Level 3 AED'000</i> |
|--|---|----------------------------|----------------------------|----------------------------|
| Investments at fair value through profit or loss | <u>16,261</u> | <u>9</u> | <u>-</u> | <u>16,252</u> |
| Investments properties | <u>32,700</u> | <u>-</u> | <u>-</u> | <u>32,700</u> |
| | <i>31 December 2018 AED'000</i> | <i>Level 1 AED'000</i> | <i>Level 2 AED'000</i> | <i>Level 3 AED'000</i> |
| Investments at fair value through profit or loss | <u>17,300</u> | <u>12</u> | <u>-</u> | <u>17,288</u> |
| Investment properties | <u>30,600</u> | <u>-</u> | <u>-</u> | <u>30,600</u> |

30 SUBSEQUENT EVENTS

There were no material events after the reporting date which could require adjustments or disclosures in these consolidated financial statements.

31 RECLASSIFICATIONS

Provision for depreciation of AED 611 thousand for the year ended and as of 31 December 2018, on temporarily idle property, plant and equipment was classified as other provision under 'Trade and other payables' instead of adding to accumulated depreciation through depreciation charge for the year 2018 under 'Property, plant and equipment'. Those have been appropriately reclassified in comparative information.

Unikai Foods (P.J.S.C.) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at t 31 December 2019

31 RECLASSIFICATIONS (continued)

The reclassifications did not result in changes in previously reported profit for the year ended 31 December 2018 and total equity as of that date. An additional consolidated statement of financial position as at 1 January 2018 was not presented in these consolidated financial statements, given that above reclassifications made did not have any impact on the previously reported assets, liabilities and equity as of 1 January 2018.

Certain other comparative information have been reclassified to confirm presentation with the current year.