United Foods Company (PSC)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2017

EY
Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF UNITED FOODS COMPANY (PSC)

Introduction

We have reviewed the accompanying interim condensed statement of financial statement of United Foods Company (PSC) (the "Company") which comprised the interim condensed statement of financial position as at 31 March 2017 and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young

Signed by
Anthony O'Sullivan
Partner
Registration No. 687

14 May 2017

Dubai, United Arab Emirates

INTERIM CONDENSED STATEMENT OF INCOME

For the period ended 31 March 2017 (Unaudited)

	Note	*Three months ended* *31 March 2017 AED*	*31 March 2016 AED*
Sales		**115,725,026**	99,856,952
Cost of sales		**(94,481,926)**	(79,473,611)
Gross profit		**21,243,100**	20,383,341
Selling and distribution expenses		**(10,863,287)**	(10,096,103)
Administrative expenses		**(3,821,821)**	(3,627,603)
Finance costs		**(78,528)**	(180,163)
Share of results of an associate	5	**(465,284)**	-
Other income, net		**167,102**	156,375
Profit for the period	3	**6,181,282**	6,635,847
Earnings per share in AED	8	**0.20**	0.22

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 31 March 2017 (Unaudited)

	Three months ended	
	31 March 2017 AED	*31 March 2016 AED*
Profit for the period	**6,181,282**	6,635,847
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Change in fair value of available-for-sale investments	**2,914**	31,397
Share of other comprehensive income of an associate	**2,139**	-
Other comprehensive income for the period	**5,053**	31,397
Total comprehensive income for the period	**6,186,335**	6,667,244

The attached notes 1 to 13 form part of these interim condensed financial statements.

United Foods Company (PSC)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	*31 March 2017 AED (Unaudited)*	*31 December 2016 AED (Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**121,066,288**	122,673,744
Intangible asset		**553,281**	657,613
Available-for-sale investments		**328,203**	325,289
Investment in an associate	5	**12,132,187**	13,629,132
		134,079,959	137,285,778
Current assets			
Inventories		**62,858,976**	57,689,126
Accounts receivable and prepayments		**87,380,210**	73,989,586
Amounts due from a related party	9	**184,120**	286,625
Bank balances and cash	6	**8,008,089**	4,935,213
		158,431,395	136,900,550
TOTAL ASSETS		**292,511,354**	274,186,328
EQUITY AND LIABILITIES			
Equity			
Share capital	7	**30,250,000**	30,250,000
Statutory reserve		**15,125,000**	15,125,000
Regular reserve		**15,125,000**	15,125,000
General reserve		**65,314,980**	65,314,980
Fair value reserve		**101,738**	96,685
Retained earnings		**110,537,975**	107,381,693
Total equity		**236,454,693**	233,293,358
LIABILITIES			
Non-current liability			
Employees' end of service benefits		**5,440,161**	5,318,574
Current liabilities			
Trade and other payables		**50,454,309**	30,187,264
Amounts due to a related party	9	**162,191**	18,751
Trust receipts		-	5,368,381
		50,616,500	35,574,396
Total liabilities		**56,056,661**	40,892,970
TOTAL EQUITY AND LIABILITIES		**292,511,354**	274,186,328

Mohammed Salim Rashid Abdalla Al Owais
Vice Chairman
3/5/ 2017

Mohammed Abdel Aziz Ali Abdalla Al Owais
Executive Vice Chairman
3/5/ 2017

The attached notes 1 to 13 form part of these interim condensed financial statements.

United Foods Company (PSC)

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Vice Chairman
3/5/ 2017

Mohammed Abdel Aziz Ali Abdalla Al Owais
Executive Vice Chairman
3/5/ 2017

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 March 2017 (Unaudited)

2017:	*Share capital AED*	*Statutory reserve AED*	*Regular reserve AED*	*General reserve AED*	*Fair value reserve AED*	*Retained earnings AED*	*Total AED*
Balance as at 1 January 2017	30,250,000	15,125,000	15,125,000	65,314,980	96,685	107,381,693	233,293,358
Profit for the period	-	-	-	-	-	6,181,282	6,181,282
Other comprehensive income	-	-	-	-	5,053	-	5,053
Total comprehensive income for the period	-	-	-	-	5,053	6,181,282	6,186,335
Dividends declared (Note 7)	-	-	-	-	-	(3,025,000)	(3,025,000)
Balance as at 31 March 2017	**30,250,000**	**15,125,000**	**15,125,000**	**65,314,980**	**101,738**	**110,537,975**	**236,454,693**

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 March 2017 (Unaudited)

2016:	*Share capital AED*	*Statutory reserve AED*	*Regular reserve AED*	*General reserve AED*	*Fair value reserve AED*	*Retained earnings AED*	*Total AED*
Balance as at 1 January 2016	27,500,000	13,750,000	13,750,000	65,314,980	45,633	91,256,405	211,617,018
Profit for the period	-	-	-	-	-	6,635,847	6,635,847
Other comprehensive income	-	-	-	-	31,397	-	31,397
Total comprehensive income for the period	-	-	-	-	31,397	6,635,847	6,667,244
Dividends declared (Note 7)	-	-	-	-	-	(2,750,000)	(2,750,000)
Bonus shares issued (Note 7)	2,750,000	-	-	-	-	(2,750,000)	-
Balance as at 31 March 2016	30,250,000	13,750,000	13,750,000	65,314,980	77,030	92,392,252	215,534,262

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 31 March 2017 (Unaudited)

	Notes	*Three months ended* *31 March 2017 AED*	*31 March 2016 AED*
OPERATING ACTIVITIES			
Profit for the period		**6,181,282**	6,635,847
Adjustments for:			
Depreciation		**2,868,291**	3,148,092
Amortisation		**104,332**	127,794
Loss on disposal of property, plant and equipment		**286**	3,881
Finance cost		**78,528**	180,163
Provision for employees' end of service benefits		**272,167**	520,146
Share of results of an associate		**465,284**	-
		9,970,170	10,615,923
Working capital changes:			
Inventories		**(5,169,850)**	(2,020,971)
Accounts receivable and prepayments		**(12,356,824)**	(5,929,340)
Trade and other payables		**20,267,045**	(1,411,408)
Amounts due from a related party		**102,505**	13,852
Amounts due to a related party		**143,440**	(1,106,823)
		12,956,486	161,233
Employees' end of service benefits paid		**(150,580)**	(73,721)
Net cash from operating activities		**12,805,906**	87,512
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	**(1,261,121)**	(2,214,729)
Net cash used in investing activities		**(1,261,121)**	(2,214,729)
FINANCING ACTIVITIES			
Trust receipts obtained		**18,575,697**	25,913,223
Trust receipts paid		**(23,944,078)**	(20,091,665)
Finance costs paid		**(78,528)**	(180,163)
Dividends paid		**(3,025,000)**	(2,750,000)
Net cash (used in)/ from financing activities		**(8,471,909)**	2,891,395
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,072,876**	764,178
Cash and cash equivalents at 1 January		**3,435,213**	3,886,574
CASH AND CASH EQUIVALENTS AT 31 MARCH	6	**6,508,089**	4,650,752

Non cash transaction not reflected above is dividend of AED 1,033,800 (note 5) declared by an associate which remained receivable at 31 March 2017.

The attached notes 1 to 13 form part of these interim condensed financial statements.

1 ACTIVITIES

United Foods Company (PSC) (the "Company") is a Public Shareholding Company, incorporated on 1 November 1976 by a Decree issued by His Highness, The Ruler of Dubai. On 27 June 1994, the Company amended its status to a public shareholding company to comply with the provisions of the UAE Federal Law No. (2) of 2015. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Company has progressed on adoption of the new law and continuously assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2017.

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

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

2 BASIS OF PREPARATION AND CHANGES TO THE COMPANY'S ACCOUNTING POLICIES

Basis of preparation

The interim condensed financial statements for the three months period ended 31 March 2017 have been prepared in accordance with IAS 34 "*Interim Financial Reporting*".

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2016.

In addition, results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

New standards, interpretations and amendments thereof, adopted by the Company

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2016. The adoption of the new and amended IFRS and IFRIC interpretations with effect from 1 January 2017 has had no effect on the interim condensed financial statements of the Company.

3 PROFIT FOR THE PERIOD

Profit for the period is stated after charging:

	Three months ended	
	31 March 2017 AED (Unaudited)	*31 March 2016 AED (Unaudited)*
Employee expenses	**8,513,683**	8,525,492
Rental - operating leases	**496,037**	439,714
Inventories charged to cost of sales	**86,152,176**	70,576,977

4 PROPERTY, PLANT AND EQUIPMENT

Additions and disposals

During the period ended 31 March 2017, the Company incurred costs in respect of additions amounting to AED 1,261,121 (for the year ended 31 December 2016: AED 11,097,788).

During the period ended 31 March 2017, assets with a net book value of AED 286 were disposed of by the Company (for the year ended 31 December 2016: AED 91,388).

As at 31 March 2017, capital work-in-progress of AED 13,513,403 (31 December 2016: AED 13,370,669) pertains to the expenditure incurred on the expansion of factory and warehouse facility in Jebel Ali Industrial Area. It includes capital advances of AED 588,483 (31 December 2016: AED 421,172).

During the period ended 31 March 2017, capital work-in-progress amounting to AED 1,118,388 (31 December 2016: AED 15,307,392) pertaining to expenditures incurred on the expansion of factory and warehouse facility in Jebel Ali Industrial Area have been capitalized.

5 INVESTMENT IN AN ASSOCIATE

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
First tranche of the investment	**7,878,000**	7,878,000
Second tranche of the investment (Note 5.1)	**5,699,234**	5,699,234
	13,577,234	13,577,234
Share of total comprehensive income of associate		
- For the year ended 31 December 2016	**51,898**	51,898
- For the period ended 31 March 2017	**(463,145)**	-
Share of dividend declared by associate	**(1,033,800)**	-
Carrying value	**12,132,187**	13,629,132

5.1 During 2016, the Company obtained 34.46% interest in the share capital of ERC through two tranches. On acquisition of shares under second tranche, the Company recognised the total investment in shares of ERC as an investment in an associate.

In accounting for this acquisition in its financial statements for the year ended 31 December 2016, the Company was able to determine its share of provisional fair values of ERC's net assets to be AED 13,577,234 which is equivalent to initially recognise amount of investment in associate. The Company intends to finalise the purchase price allocation of the identifiable assets, liabilities and contingent liabilities of ERC within twelve months of the date of ERC becoming associate as permitted by International Financial Reporting Standards which is still to be due at reporting date. The Company's share of the carrying value of the net assets of ERC at the reporting date were AED 15,617,397 (31 December 2016: AED 17,222,891). The difference, between the carrying value of investment in associate at the reporting date and the carrying value of the Company's share in the net assets of ERC at the reporting date, represents lower provisional fair valuation of net assets of ERC which will be finalised in due course and share of directors' remuneration of associate paid during period ended 31 March 2017. Share of loss of associate for the period ended 31 March 2017 amounting to AED 465,284 (for the year ended 31 December 2016: AED 3,809) is recorded in share of results of an associate and share of other comprehensive income of associate amounting to AED 2,139 (for the year ended 31 December 2016: AED 48,089) for the period ended 31 March 2017 is recorded in other comprehensive income of the Company.

6 CASH AND CASH EQUIVALENTS

For the purpose of the interim statement of cash flows, cash and cash equivalents comprise the following:

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
Cash in hand	**197,717**	120,536
Bank balances	**6,310,372**	3,314,677
Deposits	**1,500,000**	1,500,000
Bank balances and cash	**8,008,089**	4,935,213
Less: deposits with an original maturity of more than three months	**(1,500,000)**	(1,500,000)
Cash and cash equivalents	**6,508,089**	3,435,213

7 SHARE CAPITAL

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
Authorised issued and fully paid up:		
30,250,000 shares of 1 AED each (31 December 2016: 30,250,000 shares of 1 AED each)	**30,250,000**	30,250,000

As proposed by the Board of Directors in their meeting on 9 February 2016 and approved by the shareholders in Annual General Meeting on 19 March 2016, the Company:

- paid 10% cash dividends totaling to AED 2,750,000; and
- issued 10% bonus shares totaling to 2,750,000 shares having par value of AED 1. The Company increased the authorized, issued and paid up share capital by AED 2,750,000 for such issue and complied with legal and secretarial requirements.

During the Board of Directors' meeting held on 7 February 2017, the Directors proposed a 10% cash dividend totaling to AED 3,025,000 relating to 2016 and approved by the Shareholders in the Annual General Meeting.

8 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the period amounting to AED 6,181,282 (31 March 2016: AED 6,635,847) by the weighted average number of ordinary shares outstanding during the period ended 31 March 2017 of 30,250,000 shares (during the period ended 31 March 2016: 30,250,000 shares).

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

9 RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Significant transactions with related parties:

Significant transactions with related parties included in the interim condensed statement of income are as follows:

	Three months ended	
	31 March 2017 AED (Unaudited)	*31 March 2016 AED (Unaudited)*
Other related parties:		
Sales	**279,120**	314,900
Purchases of raw materials and services	**977,908**	4,701,666

Compensation of key management personnel
The remuneration of directors and other key members of management during the period were as follows:

	Three months ended	
	31 March 2017 AED (Unaudited)	*31 March 2016 AED (Unaudited)*
Short-term benefits	**930,612**	911,200
End of service benefits	**30,930**	30,837
	961,542	942,037

b) Due from a related party:

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
Other related party:		
Modern Bakery LLC	**184,120**	286,625

Further, accounts receivables and prepayments include dividend receivable of AED 1,033,800 (2016: Nil) from an associate.

c) Due to a related party:

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
Other related party:		
United Can Company LLC	**162,191**	18,751

10 CONTINGENCIES AND COMMITMENTS

Contingent liabilities
At 31 March 2017, the Company had contingent liabilities in respect of bank amounting to AED 865,634 (31 December 2016: AED 262,167), from which it is anticipated that no material liabilities will arise.

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

Contingent liabilities
At 31 March 2017, the Company had guarantees with the bank amounting to AED 2,070,000 (31 December 2016: AED 2,070,000), from which it is anticipated that no material liabilities will arise.

Capital commitments
At 31 March 2017, the Company had capital commitments in respect of purchase of property, plant and equipment amounting to AED 2,663,255 (31 December 2016: AED 2,353,982).

Operating lease commitments
The land at Jebel Ali Industrial Area is taken on lease for annual rent of AED 979,616 for 10 years ending January 2023, which can be renewed for a further period of 10 years. The future aggregate minimum lease payments on the land and other leases under non-cancellable operating leases are as follows:

	31 March 2017 AED (Unaudited)	*31 December 2016 AED (Audited)*
Within one year	**1,528,840**	1,629,443
After 1 year but not more than five years	**4,757,829**	4,427,689
More than five years	**775,529**	1,020,433
	7,062,198	7,077,565

11 SEGMENTAL REPORTING

The Company operates in a single reporting segment primarily engaged in manufacturing, processing and marketing of hydrogenated vegetable ghee, cooking oil, margarine, butter products, animal oil and fat manufacturing. All the relevant information relating to this reporting/operating segment is disclosed in the statement of financial position, statements of income and other comprehensive income and notes to the financial statements.

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

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

Major customer
During the period ended 31 March 2017, revenue from one customer amounting to AED 12,806,398 (31 March 2016: AED 10,027,992) accounts for 10% or more of the Company's total revenue.

12 FIDUCIARY ASSETS

As at 31 March 2017, the Company held 63 MT (31 December 2016: 18 MT) raw materials, in a fiduciary capacity on behalf of third parties.

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand and bank balances, accounts receivables, due from a related party and available-for-sale investments. Financial liabilities consist of trust receipts, trade and other payables and due to a related party.

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

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

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

As at 31 March 2017, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	31 March 2017 AED	***Level 1 AED***	***Level 2 AED***	***Level 3 AED***
Quoted equity securities				
Investments and Financial Services Sector	**312,500**	**312,500**	-	-
Marine Terminal Operations Sector	**15,703**	**15,703**	-	-
Total	**328,203**	**328,203**	-	-

As at 31 December 2016, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	31 Dec 2016 AED	*Level 1 AED*	*Level 2 AED*	*Level 3 AED*
Quoted equity securities				
Investments and Financial Services Sector	312,500	312,500	-	-
Marine Terminal Operations Sector	12,789	12,789	-	-
Total	325,289	325,289	-	-

During the period ended 31 March 2017 and year ended 31 December 2016, there were no transfers between the various levels of fair value measurements.