

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

Consolidated financial statements
31 December 2017

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

Dear Shareholders,

On Behalf of the Board of Directors, I am pleased to explicate the Annual Report of your Company together with the audited consolidated financial statements for the year ended December 31, 2017.

BUSINESS ENVIRONMENT:

Year 2017 presented a recondite and competitive business environment in the FMCG sector. Precarious economic health in the region impelled pressures on consumer preferences which remained inclined towards frugality. However despite of these challenges, your management remained imperturbable and sedulously dedicated to achieve growth in Sales revenue, curtail costs, protect Net Operating Profits and maintain overall net business profitability. I am delighted to inform you that your company has achieved 17% growth in Sales revenue as compared to 2016 and has maintained its Net Operating Profits at AED 9.7 million. In 2017 we have also embarked upon the execution of a preceding strategic decision to consolidate and economize our production facilities for our UAE and Oman markets and concluded the sale of our Sohar factory. Thus an impairment of AED 5.3 million, for the assets sold, is reflected in the post Net Operating results. The conscientious decision making and incisive and veracious business strategies of your management has not only enabled the company to maintain the Net Profitability trend for three years in a row , but has also exalted Unikai brand value in the industry and garnered growth in revenues across all trade channels . In 2017, Unikai successfully enamored world class customers for its product portfolio and became proud partner by choice for Emirates International Airline and Emirates Flight Catering (EKFC).

The epitome of the enviable success of your company is marked by the assiduous hard work of your management which has built a stable platform that will enable the business to pursue consistent, profitable and long-term growth beyond 2017.

AED '000		
	2017	2016
Revenue	361,708	308,328
Net Operating Profit	9,773	10,212
Net Profit	2,356	10,100

Another profitable year has concluded with astonishing celerity giving way for an effulgent and illustrious next year. True to our commitment to add value to all our stakeholders, I am delighted to announce that the board has proposed a dividend payout of 4.5 % of our share capital.



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

On that note and on behalf of the board, I am pleased to share with you a highlighted summary of our key accomplishments in the last four years of our tenure:

Financial Stability:

Strengthened Working Capital position negotiated better credit terms with suppliers secured additional Trade Finance facilities and funded procurement, OPEX, CAPEX and Assets with high yielding ROI's. Mitigated volatility in pricing of Raw materials through hedging strategy, achieved 17% growth in sales and successfully registered three consecutive years of profit (after successive losses for four years), in addition to rekindling our relationships with our partners, suppliers and customers by honoring our contracts and commercial terms.

Operational Efficiencies:

Nurtured our customer relationships in both modern and traditional trade and invested in building sales capabilities. Identified and invested in growth channels and enhanced the level of senior management involvement with Sales achievements across all trade channels. Analyzed and managed channel conflict and implemented containment strategies, such as ensuring price consistency and simultaneous product distribution across channels. Reviewed and revised route-to-market strategy (RTM), rationalized and optimized our sales routes and distribution system and improved our margins by focusing on premium products. Outsourced non-core activities and focused on value added products. Tracked cost to serve, and improved Through Put Velocity (TPV), and the product mix, set prices strategically by examining pricing gaps with the competition, brand equity and accentuating consumer price elasticity. Acquired growth across all trade channels by shifting from a transactional to a collaborative and customer-centric approach to modern trade accounts, optimized trade expenditures, and tailored assortment and merchandising programs matching customer priorities. Implemented segmentation of Traditional Trade (TT) based on historical sales, growth potential, and cost to serve.

Infrastructure Development:

Postulated investment strategy in indispensable infrastructure development and initiated the construction of state of the art additional Warehousing facility at Dubai and Ras Al-Khaimah .Successfully initiated the installation of Plant and machinery retrieved from Sohar factory which served as appurtenance to the existing production facility in UAE. Concluded the upgradation of Central Lab and revamped our Unikai distribution centers across UAE and Oman in addition to increasing our route capacity and freezer placements.



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

Innovation & Brand building

Launched several new products in 2017, including Royal Treat Ice cream, Delite Nuts and U- Water. Revamped our existing portfolio with consumer centric packaging. Successfully, participated in Gulf food 2017 and extolled among masses in numerous CSR activities went live across key online platforms - social and a new corporate website with robust PR support to magnify our key initiatives.

OUR COMMITMENT TO YOU IN 2018

I feel confident to prognosticate continuation of growth in our Revenues and Profitability in 2018 by focusing on our core strengths i.e. our venerable brand equity, competitive price points and pervasive market penetration across all trade channels. We will continue to prowess on our expertise in the core business areas including but not limited to Sales and marketing, Production, Logistics and distribution, Innovation and New Product Developments. We remain fully committed to sublimate our efforts in confluence with infallible vision to enhance market credence, creating shareholder value cherish scrupulous business values , attain the status of preferred food and beverage Lifestyle Company with elysian business execution and perennial sustainability.

I am also very grateful to have the ongoing cogent advice and support of our omniscient and august Board. I would like to thank the members for their time and effort over the last four years, and for helping direct the company along a path of growth and profitability. My gratitude extends also to our customers, suppliers, business partners, bankers and the employees who always commit and contribute to the success of our company

Sincerely,

Mana Mohammed Saeed Al Mulla
Executive Vice Chairman



KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' 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.) ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (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.

Key audit matters

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

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Valuation of inventories

Refer to note 13 to the consolidated financial statements

Valuation of inventories is a key audit matter due to:

- the size of the balance (being 30% of the total assets of the Group);
- sizeable part of the inventories has a relatively short shelf life and is exposed to expiration; and
- the level of judgment required by us in evaluating management's assessment of provision for obsolete and slow moving inventories.

Inventories are carried at the lower of cost and net realisable value. As a result, management applies judgment in determining the appropriate provision for obsolete and slow moving inventory items and estimating the net realisable value.

Our audit procedures included:

- testing the effectiveness of key controls operating over inventories; including observing the process of management year end inventory count.
- verifying for a sample of inventory items that related costs have been appropriately recorded.
- testing on a sample basis the net realisable value by comparing to the recent selling prices and assessing the reasonableness of any resulting write down of inventory items.
- assessing the reasonableness of the provision for obsolete and slow moving inventories by reviewing the age profile/expected expiries of inventories and evaluating management's basis of determining the usability of inventories.
- assessing reasonableness of estimates used by management in computing provision for slow moving and obsolete inventories by comparing these with historical trends.

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Valuation of trade receivables

Refer to notes 14 and 28 to the consolidated financial statements

Valuation of trade receivables is a key audit matter due to:

- the size of the balance (being 38% of the total assets of the Group), which includes overdue balances; and
- the level of judgment required by us in evaluating management's assessment of allowance for bad and doubtful receivables.

Management's assessment of determination of the recoverability of trade receivables, and the resulting impairment allowance applies significant judgments and is subject to various estimation uncertainties.

Management applies judgment to determine appropriate parameters and uses certain assumptions to calculate allowance for bad and doubtful receivables.

Our audit procedures included:

- testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history.
- an analyses of significant overdue receivable balances at the year end and the understanding of the basis applied by management to arrive at the year end allowance for bad and doubtful receivables.
- obtaining balance confirmations from customers selected on a sample basis. In case of non-replies, we performed alternative procedures to verify accuracy and completeness of the respective balance.
- inspection of arrangements and / or correspondences with external parties to assess the recoverability of significant outstanding receivables.
- assessing the adequacy of the disclosures in the consolidated financial statements.



Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Directors' report prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of the auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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 IFRS and their preparation in compliance with the applicable provisions of 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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' 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 auditors' 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.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
(continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

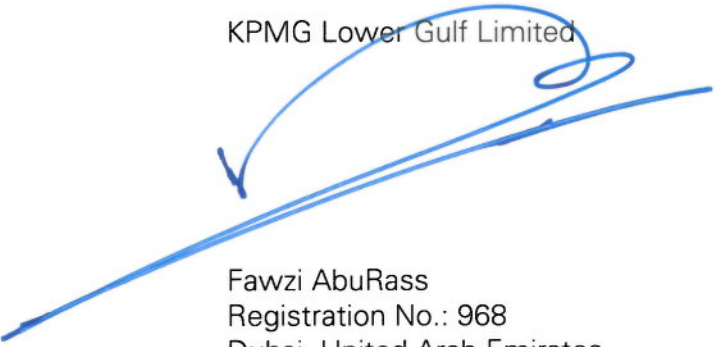
Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations 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;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in note 12 to the consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2017;
- vi) note 23 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and

Report on Other Legal and Regulatory Requirements *(continued)*

- 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 2017 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2017.

KPMG Lower Gulf Limited



Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 22 FEB 2018

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

Consolidated income statement for the year ended 31 December 2017

	<i>Note</i>	2017 AED 000	2016 AED 000
Revenue		361,708	308,328
Cost of sales	5	(232,598)	(194,324)
Gross profit		129,110	114,004
Administrative, selling and distribution expense	6	(119,337)	(103,792)
Operating profit for the period		9,773	10,212
Finance costs	7	(6,451)	(4,067)
Gain on sale of available for sale investments	12	44	-
Other income	8	4,212	4,058
Profit for the year before impairment and tax		7,578	10,203
Impairment of assets held for sale	16	(5,294)	-
Tax income/(expense)		72	(103)
Profit for the year		2,356	10,100
Profit attributable to:			
Owners of the Company		2,356	10,100
Earnings per share			
Basic earnings per share (AED)	26	0.073	0.312

The notes set out on pages 17 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 4 to 10.

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

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	<i>Note</i>	2017 AED 000	2016 AED 000
Profit for the year		2,356	10,100
Other comprehensive income for the year:			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale investments	12	(14)	3
Transfer of reserve on available for sale investments sold during the year to profit or loss	12	(44)	-
Total other comprehensive income for the year		(58)	3
Total comprehensive income for the year		2,298	10,103
Total comprehensive income attributable to:			
Owners of the Company		2,298	10,103

The notes set out on pages 17 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 4 to 10.

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

Consolidated statement of financial position

as at 31 December 2017

	Note	2017 AED 000	2016 AED 000
Non-current assets			
Property, plant and equipment	9	41,322	26,660
Capital advances	10	-	4,267
Available-for-sale investments	12	5,595	5,903
		<u>46,917</u>	<u>36,830</u>
Current assets			
Inventories	13	63,748	45,397
Trade and other receivables	14	88,031	43,600
Due from related parties	23	184	315
Cash in hand and at bank	15	12,472	9,476
Assets held for sale	16	-	12,069
		<u>164,435</u>	<u>110,857</u>
Total assets		<u><u>211,352</u></u>	<u><u>147,687</u></u>
Equity			
Share capital	17	32,368	30,250
Legal reserve	18	2,366	1,484
Restricted reserve	18	792	792
Retained earnings	18	1,659	6,279
Fair value reserve		(1)	57
		<u>37,184</u>	<u>38,862</u>
Non-current liabilities			
Provision for staff terminal benefits	19	7,408	6,324
Long term borrowings	20	-	9,726
		<u>7,408</u>	<u>16,050</u>
Current liabilities			
Short-term borrowings	20	113,170	59,320
Trade and other payables	21	53,090	30,891
Due to related parties	23	213	1,965
Provision for income tax	22	287	599
		<u>166,760</u>	<u>92,775</u>
Total liabilities		<u><u>174,168</u></u>	<u><u>108,825</u></u>
Total equity and liabilities		<u><u>211,352</u></u>	<u><u>147,687</u></u>

These consolidated financial statements were authorized for issue on behalf of the Board of Directors on

22 FEB 2018

Director

Director

The notes set out on pages 17 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 4 to 10.

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

Consolidated statement of cash flows

for the year ended 31 December 2017

	2017 AED 000	2016 AED 000
Cash flows from operating activities		
Profit for the year	2,356	10,100
<i>Adjustments for:</i>		
Depreciation	4,610	6,014
Amortization of intangible assets	-	461
Impairment loss on assets held for sale	5,294	-
Interest expense	6,451	4,067
Dividend income	(526)	(538)
Provision for impairment of trade receivables	1,951	300
Provision for staff terminal benefits	1,583	707
Gain on disposal of property, plant and equipment (net)	(6)	(695)
Gain on sale of available for sale investments	(44)	-
Tax (income)/expense	(72)	103
	<u>21,597</u>	<u>20,519</u>
<i>Changes in:</i>		
• inventories	(18,351)	(8,064)
• trade and other receivables	(46,382)	(5,059)
• due from related parties	131	(315)
• trade and other payables	21,569	(4,642)
• due to related parties	(1,752)	1,900
Staff terminal benefits paid	(499)	(541)
Income taxes paid	(240)	(366)
Directors' fee paid	(951)	-
	<u>(24,878)</u>	<u>3,432</u>
Net cash (used in)/from operating activities		
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	175	815
Proceeds from disposal of assets held for sale	5,225	-
Proceeds from sale of available for sale investments	294	-
Acquisition of property, plant and equipment	(13,624)	(8,528)
Capital advances paid	-	(4,267)
Dividend received	526	538
	<u>(7,404)</u>	<u>(11,442)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Net movement in bank borrowings	41,984	21,101
Dividend paid	(3,025)	-
Interest paid	(5,821)	(4,067)
	<u>33,138</u>	<u>17,034</u>
Net cash from financing activities		
Net increase in cash and cash equivalents	<u>856</u>	<u>9,024</u>
Cash and cash equivalents at the beginning of the year	5,357	(3,667)
	<u>6,213</u>	<u>5,357</u>
Cash and cash equivalents at end of year		
<i>Cash and cash equivalents comprise:</i>		
Cash in hand and at bank (note 15)	12,472	9,476
Bank overdraft (note 20)	(6,259)	(4,119)
	<u>6,213</u>	<u>5,357</u>

The notes set out on pages 17 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 4 to 10.

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital AED 000	Legal reserve AED 000	Restricted reserve AED 000	General reserve AED 000	(Accumulated losses)/retained earnings AED 000	Fair value reserve AED 000	Total AED 000
At 1 January 2016	30,250	900	792	900	(4,137)	54	28,759
Total comprehensive income for the year							
Profit for the year	-	-	-	-	10,100	-	10,100
Other comprehensive income for the year	-	-	-	-	-	3	3
Total comprehensive income for the year	-	-	-	-	10,100	3	10,103
Other equity movements							
Transfers to accumulated losses (refer to note 18)	-	-	-	(900)	900	-	-
Transfer to reserves	-	584	-	-	(584)	-	-
At 31 December 2016	30,250	1,484	792	-	6,279	57	38,862

The notes set out on pages 17 to 47 are an integral 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 2017

	Share capital AED 000	Legal reserve AED 000	Restricted reserve AED 000	General reserve AED 000	Retained earnings AED 000	Fair value reserve AED 000	Total AED 000
At 1 January 2017	30,250	1,484	792	-	6,279	57	38,862
Total comprehensive income for the year							
Profit for the year	-	-	-	-	2,356	-	2,356
Other comprehensive income for the year	-	-	-	-	-	(58)	(58)
Total comprehensive income for the year	-	-	-	-	2,356	(58)	2,298
Transactions with owners of the Company							
<i>Contributions and distributions to owners</i>							
Dividends paid (refer to note 18)	-	-	-	-	(3,025)	-	(3,025)
Bonus shares issued (refer to note 17)	2,118	-	-	-	(2,118)	-	-
Total contributions and distributions to owners	2,118	-	-	-	(5,143)	-	(3,025)
Other equity movements							
Transfer to legal reserve (refer to note 18)	-	882	-	-	(882)	-	-
Directors' fee paid (refer to note 18)	-	-	-	-	(951)	-	(951)
Total other equity movements	-	882	-	-	(1,833)	-	(951)
At 31 December 2017	32,368	2,366	792	-	1,659	(1)	37,184

The notes set out on pages 17 to 47 are an integral part of these consolidated financial statement

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

Notes to the consolidated financial statements for the year ended 31 December 2017

1. Reporting entity

Unikai Foods (P.J.S.C.) (“the Company”) is a Public Shareholding Company incorporated on 11 April 1977 by a Decree from 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 legal status of the Subsidiary is set out in note 25.

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 a separate trade license with the name “Unikai International P.J.S.C.”. The registered address of the Company is P.O. Box 6424, Dubai, UAE.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and comply with the relevant Articles of the Company and the UAE Federal Law No. (2) of 2015.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost, except for financial instruments classified as available-for-sale and assets held for sale, that are stated at fair value.

Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirate Dirham (“AED”), which is the Company’s functional currency. All financial information presented in AED has been rounded to the nearest thousand, unless otherwise indicated.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the Group’s accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

Notes *(continued)*

2. Basis of preparation *(continued)*

Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are discussed in note 29.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The management have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The management regularly reviews significant unobservable inputs and valuation adjustment. If third party information, such as broker quotes or pricing services, are used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses 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 the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 12 – available-for-sale investments;
Note 28 – financial instruments; and
Note 16 – assets held for sale.

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

Notes *(continued)*

3. Significant accounting policies

The accounting policies set out below, which comply with IFRS, have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise the consolidated financial position and the consolidated results of operations of the Company and its subsidiary (collectively referred to as “the Group”) on a line by line basis.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Material intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements.

Revenue

Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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.

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

Notes (continued)

3. Significant accounting policies (continued)

Property, plant and equipment and depreciation

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- capitalised borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gains or losses on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value using straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the leased term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the leased term.

The estimated useful lives for current and comparative years of significant items of property, plant and equipment are as follows:

	2017	2016
Buildings	30	20
Plant and equipment	10 – 20	5 – 10
Transportation and distribution equipment	3 – 6	3 – 6
Furniture, fixture and office equipment	7	4

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Any change is accounted for as a change in accounting estimate by changing the depreciation charge for the current and future periods.

Any gain or loss on disposal of a property, plant and equipment is recognised in profit or loss.

Capital work in progress

Capital work in progress is stated at cost less any impairment losses and not depreciated until such time the assets are ready for intended use and transferred to the respective category under property, plant and equipment.

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

Notes (continued)

3. Significant accounting policies (continued)

Intangible assets

Intangible assets represent computer software, are stated at cost less accumulated amortisation, and impairment losses, if any and are amortised over four years on a straight line basis from the date that they are available for use.

An assessment of amortisation method and useful lives are undertaken at each reporting date and, where material, if there is a change in estimate, an appropriate adjustment is made to the amortisation charge.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in profit or loss as incurred.

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.

Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories and financial assets which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in the profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

Financial instruments

The Group classifies non-derivative financial assets into following categories: loans and receivables and available for sale financial assets.

(i) Non-derivative financial assets and liabilities – recognition and derecognition

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the asset. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and amounts due from related parties.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances including fixed deposits with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and accumulated in the fair value reserves. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities comprise trade and other payables, bank borrowings and amounts due to related parties.

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Impairment

(i) Non-derivative financial assets

Financial asset not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, the disappearance of active market for a security or observable data indicating that there is measureable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historic trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of assets, the relevant amounts are written off. If the amount of impairment loss subsequently decrease and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

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

Notes (continued)

3. Significant accounting policies (continued)

Impairment (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss recognized previously in profit or loss. If the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets, other than inventories, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or Cash Generating Units (CGUs).

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognized if the carrying amount of an asset or cash generated unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Staff terminal benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the year in which they arise.

Provisions

Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

Leases

Operating lease

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases.

Payments made/receipts under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received/allowed are recognized in profit or loss as an integral part of the total lease payments made/receipts obtained.

Foreign currency

Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss on a net basis as either finance income or finance cost.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to AED at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to AED at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity.

Finance costs

Finance expenses comprise interest expense on bank borrowings.

Interest expense is recognized in profit or loss as it accrues using the effective interest method.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax calculated in accordance with the income tax laws applicable to the overseas subsidiary of the Group. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent it is probable that the future taxable profits will be available against which the deferred tax asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

Fair value

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Notes (continued)

3. Significant accounting policies (continued)

Fair value (continued)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

New standards and interpretations not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group does not plan to adopt these standards early. The new standards which may be relevant to the Group are set out below.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The final version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

i. Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, and investments in equity securities that are managed on a fair value basis. At 31 December 2017, the Group had equity investments classified as available-for-sale with a carrying value of AED 5.6 million. Under IFRS 9, the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit or loss.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

New standards and interpretations not yet effective *(continued)*

IFRS 9 *Financial Instruments (continued)*

ii. *Impairment*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost.

Under IFRS 9, loss allowances will be measured on the basis of the credit risk of a financial asset at the reporting date. The ECL model will apply higher percentage of loss where credit risk increases significantly since initial recognition. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The estimated ECL will be calculated based on actual credit loss experience. The Group will perform the calculation of ECL rates separately for different types of customers including related parties.

Actual credit losses will be adjusted to reflect differences between economic conditions during the period over which the historical data will be collected, prevalent conditions and the Group's view of economic conditions over the expected lives of the receivables and related party balances.

The Group does not expect the application of IFRS 9 requirements related to impairment to have a significant impact on its consolidated financial statements.

iii. *Hedging*

IFRS 9 incorporates new hedge accounting rules which intend to align hedge accounting with a Group's risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. In accordance with IFRS 9, the Group has an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The application of the requirements of IFRS 9 related to hedges will not have any impact on these consolidated financial statements.

The Group management has decided not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in equity as at 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

Notes *(continued)*

3. Significant accounting policies *(continued)*

New standards and interpretations not yet effective *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

Sales of goods

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Revenue will be recognised for the contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

Based on the Group's assessment, the timing of revenue recognition from sale of goods are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these sales.

IFRS 16 Leases

IFRS 16, published in January 2016 replaces the previous guidance in IAS 17 *Leases*. Under this revised guidance, leases will be brought onto companies' balance sheets, increasing the visibility of their assets and liabilities. It further removes the classification of leases as either operating leases or finance leases treating all leases as finance leases from the perspective of the lessee, thereby eliminating the requirement for a lease classification test. The revised guidance has an increased focus on who controls the asset and may change which contracts are leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Management is currently in the process of assessing the impact of IFRS 16 on these consolidated financial statements.

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

Notes *(continued)*

4. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about 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.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management framework is a combination of formally documented policies in certain areas and informal approach to risk management in others. The Group's senior management is responsible for developing and monitoring the Group's approach to risk management. The Group's senior management reports to the Board of Directors on its activities.

The Group's approach to risk management is established to identify and analyse the risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and principally from the Group's receivables from customers and cash with banks.

Trade receivables

Credit risk is managed by assessing the creditworthiness of potential customers and the potential for exposure to the market in which they operate, combined with regular monitoring and follow-up. As part of the Group's credit risk management, where it is considered necessary, such receivables are covered by post dated cheques.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring of outstanding receivables. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for group of similar assets in respect of losses that have been incurred but not yet identified.

Cash at banks

The Group's cash is placed with banks of good repute.

Due from related parties

Balances due from related parties are considered fully recoverable by the management.

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

Notes *(continued)*

4. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Group.

Liquidity risk mainly relates to trade and other payables and bank borrowing. Management continuously monitors its cash flows to determine its cash requirements and makes comparison with its funded and un-funded facilities with banks in order to manage exposure to liquidity risk.

Bank borrowings are subject to certain financial covenants. As at the reporting date, the Group has not complied with certain financial covenants as specified in the facility letters with the banks. Accordingly, the long term portion of the loan amounting to AED 8.5 million has been classified as short term at the reporting date because the loan balance becomes payable on demand as per the terms of the loan agreement. However, based on the relationship with the creditor banks, the Group's Directors are of the view that the above mentioned non-compliance is not likely to affect the continuation of the Group's bank facilities and hence will not have a significant impact on the operations.

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities, primarily United State Dollar ("USD") and Euro. The Group does not face any foreign currency risk on transactions denominated in USD as AED is currently pegged to USD.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities that are subject to fair value interest risk are the ones with fixed interest rate. Financial assets and liabilities that are subject to cash flow interest rate risk are the ones with floating interest rate.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves and retained earnings. The Board of Directors monitors the return on capital as well as level of dividend to ordinary shareholders. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. During the year current year, the shareholders approved dividend of AED 3.03 million and a bonus issue of 7% (AED 2.1 million).

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

Notes (continued)

5. Cost of sales

	2017 AED 000	2016 AED 000
Manufacturing:		
Raw material, packing materials and stores and spares consumed	160,936	127,298
Staff costs	10,979	13,070
Utilities	11,679	10,615
Depreciation (refer to note 9(a))	2,071	2,583
Other direct costs	6,385	5,338
	<u>192,050</u>	<u>158,904</u>
Changes in inventories of semi-finished and finished goods	2,332	3,281
	<u>(A)</u>	<u>162,185</u>
Trading:		
Inventories, beginning of the year	7,559	6,618
Purchases (including direct expenses)	42,236	33,080
Inventories, end of the year (refer to note 13)	(11,579)	(7,559)
	<u>(B)</u>	<u>32,139</u>
	<u>(A) + (B)</u>	<u>194,324</u>

6. Administrative, selling and distribution expenses

	2017 AED 000	2016 AED 000
Staff costs	51,380	40,987
Advertisement and other selling expenses	9,939	17,336
Depreciation (refer to note 9(a))	2,539	3,431
Commercial vehicle expenses	24,172	20,244
Utilities	823	732
Amortisation of intangible assets (refer to note 11)	-	461
Provision for impairment of trade receivables	1,951	300
Other expenses	28,533	20,301
	<u>119,337</u>	<u>103,792</u>

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

Notes *(continued)*

7. Finance costs

	2017 AED 000	2016 AED 000
Interest on bank borrowings	<u>6,451</u>	<u>4,067</u>

8. Other income

	2017 AED 000	2015 AED 000
Rental income (refer to note below)	2,400	2,150
Gain on disposal of property plant and equipment	6	695
Dividend income	526	538
Sale of scrap	404	270
Net exchange gains	30	233
Miscellaneous income	846	172
	<u>4,212</u>	<u>4,058</u>

Rental income is earned from leasing of labour accommodation to third parties.

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

Notes (continued)

9. Property, plant and equipment

	Land and buildings AED 000	Plant and equipment AED 000	Transportation and distribution equipment AED 000	Furniture, fixture and office equipment AED 000	Capital work-in- progress AED 000	Total AED 000
Cost						
At 1 January 2016	46,772	57,845	26,854	8,063	-	139,534
Additions	243	4,610	2,325	705	645	8,528
Disposals	-	(2,690)	(11,380)	(1,894)	-	(15,964)
Transfer from assets held for sale (refer to note 16)	-	-	-	-	1,380	1,380
At 31 December 2016	47,015	59,765	17,799	6,874	2,025	133,478
At 1 January 2017	47,015	59,765	17,799	6,874	2,025	133,478
Additions	163	5,452	5,908	1,758	343	13,624
Transfer from capital advances	-	-	-	-	4,267	4,267
Disposals	-	(756)	(2,480)	(8)	-	(3,244)
Transfer from capital work in progress	-	507	95	-	(602)	-
Transfer from assets held for sale (refer to note 16)	-	6,534	-	-	1,550	8,084
At 31 December 2017	47,178	71,502	21,322	8,624	7,583	156,209
Depreciation and impairment						
At 1 January 2016	34,524	50,124	25,194	6,806	-	116,648
Charge for the year	1,235	2,661	795	1,323	-	6,014
On disposals	-	(2,577)	(11,380)	(1,887)	-	(15,844)
At 31 December 2016	35,759	50,208	14,609	6,242	-	106,818
At 1 January 2017	35,759	50,208	14,609	6,242	-	106,818
Charge for the year	534	2,107	1,167	802	-	4,610
On disposals	-	(639)	(2,430)	(6)	-	(3,075)
Transfer from assets held for sale (refer to note 16)	-	6,534	-	-	-	6,534
At 31 December 2017	36,293	58,210	13,346	7,038	-	114,887
Net book value						
At 31 December 2017	10,885	13,292	7,976	1,586	7,583	41,322
At 31 December 2016	11,256	9,557	3,190	632	2,025	26,660

(a) Depreciation has been allocated as follows:

	2017 AED 000	2016 AED 000
Cost of sales (refer to note 5)	2,071	2,583
Administrative, selling and distribution expenses (refer to note 6)	2,539	3,431
	<u>4,610</u>	<u>6,014</u>

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

Notes (continued)

9. Property, plant and equipment (continued)

- b) The Government of Dubai has granted land to the Group for setting up manufacturing facilities that has been recorded at a nominal value.
- c) 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.
- d) Capital work in progress represents costs incurred towards construction of warehouses and cooling system for the plant.
- e) Plant and equipment are mortgaged against bank facilities (refer to note 20).
- f) During the current year, the Group reassessed the estimated useful lives of property, plant and equipment and have resolved to revise the useful lives of the following assets:

Asset category	Useful lives	
	2017	2016
Buildings	30	20
Plant and machineries	10-20	5-10
Freezers (included under transportation and distribution equipment)	7	4

This change in the estimated useful life of the assets has resulted in a decrease in the depreciation charge for the year ended 31 December 2017 by AED 1.9 million. This change has been accounted for as a change in accounting estimate and applied prospectively in accordance with International Accounting Standard – 8.

10. Capital advances

	2017 AED 000	2016 AED 000
Capital advances	-	4,267

Advances in the previous year represented payments made to various third party suppliers towards acquisition of plant and machineries. Those advances were transferred to capital work in progress during the current year upon receipt of related plant and machineries during the year.

11. Intangible assets

	AED 000
Cost	
At 31 December 2017 and 2016	2,205
Amortization	
As at 1 January 2016	1,744
Charge for the year	461
At 31 December 2016 and 2017	2,205
Net book value	
At 31 December 2017	-
At 31 December 2016	-

Intangible assets include rights to use software.

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

Notes (continued)

12. Available-for-sale investments

	2017 AED 000	2016 AED 000
Opening balance	5,903	5,900
Change in fair value	(14)	3
Disposals	(294)	-
Closing balance	<u>5,595</u>	<u>5,903</u>

These include investments amounting to AED 5.6 million made in unquoted equity shares of Rawabi Emirates PJSC (31 December 2016: AED 5.6 million). Since the investments in Rawabi Emirates PJSC do not have a quoted market price in any active market, the fair value cannot be reliably measured and therefore the investment is stated at cost less impairment losses, if any.

During the current year, investments having a fair value of AED 0.3 million were sold and the related fair value reserve of AED 0.04 million was transferred to profit or loss.

The Group has not purchased any shares during the year.

13. Inventories

	2017 AED 000	2016 AED 000
Raw materials and packing materials	29,371	24,085
Semi-finished goods	1,348	992
Finished goods	7,406	10,094
Trading stocks	11,579	7,559
Consumable stores and spare parts	6,717	6,471
	<u>56,421</u>	<u>49,201</u>
Less: Provision for slow moving inventories	(2,008)	(3,863)
	<u>54,413</u>	<u>45,338</u>
Goods-in-transit	9,335	59
	<u>63,748</u>	<u>45,397</u>

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

	2017 AED 000	2016 AED 000
At 1 January	3,863	10,355
Provision made/(reversed) during the year recorded under cost of sales	215	(4,371)
Inventories written off	(2,070)	(2,121)
At 31 December	<u>2,008</u>	<u>3,863</u>

Inventories have been hypothecated with bank for security against bank borrowings (refer to note 20).

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

Notes (continued)

14. Trade and other receivables

	2017 AED 000	2016 AED 000
Trade receivables	89,133	43,577
Less: provision for impairment of trade receivables	(8,746)	(6,795)
	<u>80,387</u>	<u>36,782</u>
Advances, deposits and prepayments	7,644	6,818
	<u>88,031</u>	<u>43,600</u>

Trade receivables are assigned as security against bank borrowings (refer to note 20).

15. Cash in hand and at bank

	2017 AED 000	2016 AED 000
Cash in hand	302	300
Cash at bank - current	2,089	3,989
Cash at bank - fixed deposits	10,081	5,187
	<u>12,472</u>	<u>9,476</u>

Fixed deposits are having an original maturity of less than three months and carrying interest at normal commercial rates.

16. Assets held for sale

	2017 AED 000	2016 AED 000
Buildings, plant and equipment, and furniture, fixture and office equipment (refer note below)	-	12,069

During 2015, the Directors approved the closure of the Group's Sohar factory in Oman and also decided to dispose off the factory assets ("disposal group"). Consequently, assets having a net book value of AED 13.45 million were reclassified from 'Property, plant and equipment' under non-current assets to 'Assets held for sale' under current assets.

During 2016, the Directors decided to use assets amounting to AED 1.38 million. Accordingly, such assets were reclassified as assets available for use as at 31 December 2016. Those assets were measured at the lower of their recoverable amount and the carrying values that would have been recognized had the asset never been reclassified as held-for-sale. Also refer note 9.

During the current year, (i) the fair value of buildings included in assets held for sale was reassessed based on agreement signed with a third party buyer and consequently an impairment loss of AED 2.5 million was recorded in profit or loss. The buildings have been disposed off in the current year and the carrying value (net of impairment losses) was fully realized. (ii) the Directors have decided to dismantle and move the remaining assets, from Oman to the UAE and use them in the Group's current production facilities. Accordingly, these assets have been reclassified as assets held for use under property, plant and equipment as at 31 December 2017. These assets have been measured at the lower of their recoverable amount and the carrying values that would have been recognized had the assets never been reclassified as held-for-sale. Accordingly, an impairment charge of AED 2.8 has been recorded in the current year, on their reclassification to assets held for use. Also refer note 9.

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

Notes (continued)

17. Share capital

	2017 AED 000	2016 AED 000
<i>Issued and fully paid up:</i>		
32.36 million ordinary shares of AED 1 each		
(2016: 30.25 million ordinary shares of AED 1 each)	32,368	30,250
	=====	=====

At the Annual General Meeting held on 23 March 2017, the shareholders approved the issuance of 7% bonus shares totaling to 2,117,500 shares having par value of AED 1 (refer note 18).

18. Retained earnings and reserves

Retained earnings

In the previous year, the shareholders approved to transfer the general reserve of AED 0.9 million to retained earnings.

Legal reserve

In accordance with the Articles of Association of entities within the Group and Article 103 of the UAE Federal Law No. (2) of 2015, a minimum of 10% of the net profit of the individual entities, to which law is applicable, is allocated every year to a non-distributable legal reserve. Such transfer may be discontinued when the legal reserve equals 50% of the paid up share capital of the respective individual entities. This reserve is non-distributable except in certain circumstances as mentioned in the above-mentioned law. During the current year AED 0.9 million (2016: AED 0.6 million) has been transferred to legal reserve.

Dividend and bonus shares

At the Board of Directors Meeting held on 22 February 2018, the directors proposed a 4.5% cash dividend totaling to AED 1.5 million which is subject to the approval by the shareholders in the annual general meeting.

At the Annual General Meeting held on 23 March 2017, the shareholders approved a 10% cash dividend totaling to an amount of AED 3.03 million and the issuance of 7% bonus shares totaling to 2,117,500 shares having par value of AED 1 (refer to note 17).

Directors' fee

At the Board of Directors Meeting held on 22 February 2018, the directors proposed an appropriation for the directors' fee amounting to AED 0.15 million for the year ended 31 December 2017 which is subject to the approval by the shareholders in the annual general meeting.

At the Annual General Meeting held on 23 March 2017, the shareholders approved the directors' fee amounting to AED 0.95 million for the year ended 31 December 2016.

Restricted reserve

In accordance with the Law of the country where the subsidiary company is registered, during the current year, no amount (2016: Nil) has been transferred to restricted reserve as the balance has already reached one third of the share capital of the subsidiary. This reserve is non-distributable except in certain circumstances as mentioned in the relevant law.

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

Notes (continued)

19. Provision for staff terminal benefits

	2017 AED 000	2016 AED 000
Balance at 1 January	6,324	6,158
Provision made during the year	1,583	707
Payments made during the year	(499)	(541)
	<u>7,408</u>	<u>6,324</u>

20. Borrowings

	2017 AED 000	2016 AED 000
Long term borrowings:		
Term loans	17,465	22,062
Less: short term portion (refer note (ii) below)	(17,465)	(12,336)
	<u>-</u>	<u>9,726</u>
Short term borrowings:		
Trust receipts	89,446	42,865
Bank overdraft	6,259	4,119
Current portion of term loan	17,465	12,336
	<u>113,170</u>	<u>59,320</u>

- i) Bank borrowings are mainly secured by mortgages over plant and machinery, hypothecation of inventories and assignment of receivables.
- ii) Bank borrowings are also subject to certain financial covenants including minimum tangible worth 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. As at the reporting date, the Group has not complied with certain financial covenants as specified in the facility letters with the banks. Accordingly, the long term portion of the loan amounting to AED 8.5 million has been classified as short term at the reporting date because the loan balance becomes payable on demand as per the terms of the loan agreement. However, based on the relationship with the creditor banks, the Group's Directors are of the view that the above mentioned non-compliance is not likely to affect the continuation of the Group's bank facilities and hence will not have a significant impact on the operations.

21. Trade and other payables

	2017 AED 000	2016 AED 000
Trade payables	46,715	24,107
Accruals and other payables	5,470	6,180
Dividends payable	258	258
Advance received from customers	647	346
	<u>53,090</u>	<u>30,891</u>

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

Notes (continued)

22. Provision for income tax

	2017 AED 000	2016 AED 000
At 1 January	599	862
Tax (income)/expense for the year	(72)	103
Payments during the year	(240)	(366)
	<u>-----</u>	<u>-----</u>
At 31 December	<u>287</u>	<u>599</u>

The provision for tax is in respect of the Group's operations in Oman operations. Income tax is recorded in accordance with the income tax laws of the Sultanate of Oman. In the opinion of the management the provision for AED 0.29 million (31 December 2016: AED 0.6 million) as at reporting date is adequate to meet the Group's tax liabilities.

23. Related party transactions and balances

The Group, in the normal course of business carries out transactions with other business enterprises that fall within the definition of a related party contained in International Accounting Standard 24. Related party transactions are entered at mutually agreed terms.

The significant transactions entered into by the Group with related parties other than those disclosed elsewhere in the consolidated financial statements are as follows:

	2017 AED 000	2016 AED 000
Purchases	4,541	7,785
Sales	861	858
Commission income	-	73
	<u>-----</u>	<u>-----</u>

Compensation to key management personnel is as follows:

Short term benefits paid to an Executive Director	900	-
Short term benefits – other key management personnel	1,482	2,250
Provision towards staff terminal benefits	33	20
	<u>-----</u>	<u>-----</u>

At the reporting date the balances with related parties were as below:

	2017 AED 000	2016 AED 000
Due from related parties		
- Abjar Group	184	143
- United Foods PJSC	-	172
	<u>-----</u>	<u>-----</u>
	<u>184</u>	<u>315</u>

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

Notes (continued)

23. Related party transactions and balances (continued)

	2017 AED 000	2016 AED 000
Due to related parties		
- Emirates Refreshments Company PJSC	-	1,762
- United Foods PJSC	190	-
- United Cans Company LLC	23	203
	<u>213</u>	<u>1,965</u>
Other payables		
- Key management personnel	119	330
	<u>119</u>	<u>330</u>

24. Contingent liabilities and commitments

	2017 AED 000	2016 AED 000
Bank guarantees	4058	4,058
Letters of credit	3,945	16,438
	<u>3,945</u>	<u>16,438</u>

Legal cases

As at 31 December 2017, the Group has some pending legal cases with respect to recovering of certain trade receivable balances. All these cases are pending before the Court for its hearings and final decisions. The management has reviewed the status of all of these legal cases and believes that no further provision is required as at 31 December 2017.

Commitments

Capital commitments

	2017 AED 000	2016 AED 000
Capital commitments	11,233	5,771
	<u>11,233</u>	<u>5,771</u>

Capital commitments represent costs to be incurred towards construction of warehouses and cooling system for the plant.

Operating lease commitments

Future minimum lease payments under operating leases are as follows:

	2017 AED'000	2016 AED'000
Less than one year	8,548	7,458
Between one and five years	11,454	16,934
More than five years	3,948	-
	<u>23,950</u>	<u>24,392</u>

The Group leases distribution vehicles, warehouses and office premises under operating leases.

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

Notes (continued)

25. Subsidiary

The Company holds beneficial shareholding interest in 100% of the shares of the Subsidiary, registered as a limited liability Company in the Sultanate of Oman under the Oman Commercial Register Law No. 3/74. Principal activity of the Subsidiary is trading in dairy, juice, ice cream and other food products.

26. Basic earnings per share

	2017	2016
Net profit attributable to owners of the Company (AED 000)	2,356	10,100
Weighted average number of shares outstanding ('000)	32,368	32,368
Basic earnings per share in AED	<u>0.073</u>	<u>0.312</u>

At the Annual General Meeting held on 23 March 2017, the shareholders approved the issuance of 7% bonus shares totaling to 2,117,500 shares having par value of AED 1. Accordingly, weighted average number of shares outstanding has been retrospectively adjusted to include approved bonus shares, for the purpose of calculation of earnings per share.

27. Segment reporting

The Group operates in a 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 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 do not consider an analysis by individual country would be meaningful.

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

Major customers

During the year ended 31 December 2017, there were no customers of the Group with the revenues greater than 10% of the total revenue of the Group (2016: Nil).

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

Notes (continued)

28. Financial instruments

a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 AED 000	2016 AED 000
Trade and other receivables	80,959	37,492
Cash in bank	12,170	9,176
Due from related parties	184	315
	<u>93,313</u>	<u>46,983</u>

Trade and other receivables are stated net of the allowance for doubtful recoveries. At the reporting date the Group's maximum exposure to credit risk from such receivables situated outside the UAE is as follows:

	2017 AED 000	2016 AED 000
Oman	<u>16,373</u>	<u>13,812</u>

The age of trade receivables at the reporting date was:

	2017 Gross AED 000	2017 Impairment AED 000	2016 Gross AED 000	2016 Impairment AED 000
0-30 days from invoice date	21,398	-	10,442	-
31-60 days from invoice date	19,102	-	10,356	-
61-90 days from invoice date	17,774	-	8,620	-
Over 90 days from invoice date	30,859	8,746	14,159	6,795
	<u>89,133</u>	<u>8,746</u>	<u>43,577</u>	<u>6,795</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2017 AED 000	2016 AED 000
Balance at 1 January	6,795	6,495
Provision made during the year	1,951	300
Balance at 31 December	<u>8,746</u>	<u>6,795</u>

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

Notes (continued)

28. Financial instruments (continued)

b) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

31 December 2017	Carrying amount AED 000	Contractual cash flows AED 000	Less than 1 year AED 000	Between 1 to 2 years AED 000	More than 2 years AED 000
Non-derivative financial liabilities					
Bank borrowings	113,170	134,124	134,124	-	-
Trade and other payables	52,443	52,443	52,443	-	-
Due to related parties	213	213	213	-	-
	<u>165,826</u>	<u>186,780</u>	<u>186,780</u>	<u>-</u>	<u>-</u>
31 December 2016	Carrying amount AED 000	Contractual cash flows AED 000	Less than 1 year AED 000	Between 1 to 2 years AED 000	More than 2 years AED 000
Non-derivative financial liabilities					
Bank borrowings	69,046	71,133	61,407	4,809	4,917
Trade and other payables	30,545	30,545	30,545	-	-
Due to related parties	1,965	1,965	1,965	-	-
	<u>101,556</u>	<u>103,643</u>	<u>93,917</u>	<u>4,809</u>	<u>4,917</u>

The Group does not have any derivative financial liabilities at the end of the current year or the previous year.

c) Market risk

Interest rate risk

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	Carrying amount	
	2017 AED 000	2016 AED 000
Fixed rate instrument		
Cash in bank – fixed deposit	<u>10,081</u>	<u>5,187</u>
	Carrying amount	
	2017 AED 000	2016 AED 000
Variable rate instruments		
Bank borrowings	<u>113,170</u>	<u>69,046</u>

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

Notes (continued)

28. Financial instruments (continued)

c) Market risk (continued)

Interest rate risk (continued)

Fair value sensitivity analysis for fixed interest rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	Profit or loss	
	100 bp increase AED 000	100 bp decrease AED 000
31 December 2017	(1,132)	1,132
31 December 2016	(690)	690

d) Fair values

The Group's management believes that fair value of its financial assets and liabilities are not materially different from the carrying amount at the reporting date.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2017	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Available for sale investments	18	-	5,577	5,595
31 December 2016	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Available for sale investments	326	-	5,577	5,903

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

Notes (continued)

28. Financial instruments (continued)

d) Fair values (continued)

Reasonably possible changes to share prices of investments in quoted equity shares at the reporting date are unlikely to have had a significant impact on profit or equity.

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

29. Significant accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are as follows:

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and on the historical experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Provision for obsolete and slow moving inventory

The Group reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is any future saleability of the product and the net realisable value for such product. Accordingly, provision for impairment is made where the net realisable value is less than cost based on best estimates by the management. The provision for obsolescence of inventory is based on the past movement of the inventory.

Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on an annual basis. The Group's credit risk is primarily attributable to its trade receivables. In determining whether impairment losses should be reported in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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

Notes (continued)

29. Significant accounting estimates and judgments (continued)

Impairment losses on available for sale financial assets

The Group reviews its available for sale financial assets to assess impairment at least on an annual basis. In determining whether impairment losses should be reported in profit or loss, the Group makes judgments as to determine whether there is any significant and prolonged decline in the fair value of available for sale financial assets. If the decline in the fair value of any available for sale financial asset is considered by management as significant and prolonged, an impairment loss is recorded in profit or loss.

Impairment losses on property, plant and equipment

The Group reviews its property, plant and equipment to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a reduction in the carrying value of property, plant and equipment. Accordingly, provision for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the carrying value of property, plant and equipment.

Bank borrowings – appropriate classification and presentation/disclosures

The Group management reviews compliance with financial covenants as specified in the facility letters with the banks, at each year end. In case of any breach long term loans become repayable on demand as per the terms of agreements. Management ascertains the resulting impact of any breach instances on the presentation and disclosures, and the appropriate classification of bank borrowings in the consolidated financial statements. This involves an evaluation of the Group's relationships with the lender banks, the likelihood of the term loans being called for early repayment and the resulting impact on the Group's liquidity position. Any change in the key assumptions used may significantly change the classification of bank borrowings between short term and long term and may also have an impact on the Group's liquidity position.

Classification and measurement of assets held for sale

The Group reviews classification and measurement of assets held for sale at each reporting date. In determining classification for assets held for sale, the Group makes judgment to determine whether carrying value of such assets will be recovered principally through a sale transaction or not. External independent valuers, having the appropriate recognized professional qualification have valued assets held for sale. Should the key assumptions change, the fair value of the assets held for sale may significantly change.