3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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

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

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

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

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

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

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

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

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

5 COST OF SALES

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

6 ADMINISTRATIVE, SELLING AND DISTRIBUTION EXPENSES

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

7 OTHER INCOME

	2019 AED'000	*2018 AED'000*
Rental Income	**3,609**	2,520
Dividend Income	**197**	329
Sale of scrap	**362**	591
Miscellaneous income	**124**	211
	4,292	3,651

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

8 PROPERTY, PLANT AND EQUIPMEN

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

8 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2019 AED'000	*2018 AED'000*
Cost of Sales (Note 5)	**3,105**	2,129
Administrative, selling and distribution expenses (Note 6)	**2,872**	3,582
	5,977	5,711

(2) During the last year, the Group has reclassified a labor accommodation building from property, plant and equipment to investment properties as a result of change in the use of the property. The property has been let to a third party. As at the date of transfer, the fair value of the property was measured and the resulting gain of AED 6,188 thousand (Note 9) was recognised in other comprehensive income. This has been presented as the revaluation surplus under equity in the consolidated statement of financial position.

(3) The Government of Dubai has granted land to the Group for setting up manufacturing facilities that has been recorded at a nominal value.

(4) Buildings include certain buildings constructed on land leased to the Group. The lease is renewable every year and management believes that the lease would be available to the Group on an on-going basis in the foreseeable future.

(5) Capital work in progress represents costs incurred towards construction of warehouses and cooling system for the plant.

(6) The Group continues to use fully depreciated property, plant and equipment having cost of AED 94,141 thousand (2018: AED 90,041).

9 INVESTMENT PROPERTIES

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

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

9 INVESTMENT PROPERTIES (continued)

Measurement of fair value

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

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

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

Significant unobservable inputs used in the income capitalization technique include:

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

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

Significant unobservable inputs used in the income capitalization technique include:

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

10 RIGHT-OF-USE ASSETS

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

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

11 INVENTORIES

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

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

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

12 TRADE AND OTHER RECEIVABLES

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

Movements in provision for expected credit losses:

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

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

13 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

14 CASH AND CASH EQUIVALENTS

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

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

15 SHARE CAPITAL

	2019 AED 000	*2018 AED 000*
Authorised, issued and fully paid up		
32,368 thousand ordinary shares of AED 1 each (31 December 2017: 32,368 thousand shares of AED 1 each)	**32,368**	32,368

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

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

16 STATUTORY RESERVE

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

17 RESTRICTED RESERVE

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

18 REVALUATION SURPLUS

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

19 EMPLOYEES' END OF SERVICE BENEFITS

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

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

20 LEASE LIABILITIES

	2019 *AED 000*
At 1 January 2019 (Note 2.3)	**46,062**
Additions during the period	**21,221**
Add: finance cost	**2,481**
Less: payments during the period, net of prepayments and accruals adjustment	**(8,949)**
Less: retirements during the period	**(2,592)**
At 31 December2019	**58,223**

Presented on consolidated statement of financial position as follows:

	2019 *AED 000*
Current	**14,625**
Non-current	**43,598**
At 31 December2019	**58,223**

21 BORROWINGS

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

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

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

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

Finance costs incurred by the Group is as follows:

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

22 TRADE AND OTHER PAYABLES

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

22 TRADE AND OTHER PAYABLES (continued)

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

23 INCOME TAX

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

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

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

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

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

	2019 AED 000	*2018 AED 000*
Loss for the year before taxation	**(812)**	(19,997)
Less: Loss for the year before taxation from non-tax jurisdiction	**(4,228)**	(22,204)
Profit for the year before taxation from taxable jurisdiction	**3,416**	2,207
Income tax as per tax rates of 15%	**512**	331
Tax effect of:		
Disallowed costs/expenses, net	**100**	84
Carried forward losses utilized	**(612)**	-
Current year income tax charge	-	415

	2019 AED 000	*2018 AED 000*
Movements in the provision during the year		
Balance at the beginning of the year	**702**	287
Provided during the year	**285**	415
	987	702

23 INCOME TAX

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

24 RELATED PARTY TRANSACTIONS AND BALANCES

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

Significant related party transactions during the year were as follows:

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

Compensation to key management personnel is as follows:
The remuneration of members of key management during the year was as follows:

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

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

	2019 AED 000	*2018 AED 000*
Due from a related party – under common directorship	**129**	198

	2019 AED 000	*2018 AED 000*
Due to related parties – under common directorship	**1,380**	1,576
Other payables		
- Key management personnel	**336**	479

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

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

25 CONTINGENCIES AND COMMITMENTS

	2019 AED 000	*2018 AED 000*
Letters of guarantee	**4,058**	4,058
Letters of credit	**6,449**	7,041
	10,507	11,099

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

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

	2019 AED 000	*2018 AED 000*
Capital Commitments	**6,487**	9,351

Operating leases

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

ii. Leases as lessor

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

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

	2019 AED 000	*2018 AED 000*
Less than one year	**3,800**	3,799
Between one and five years	**-**	3,000
	3,800	6,799

26 BASIC EARNINGS PER SHARE

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

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

27 SEGMENTAL REPORTING

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

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

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

Major customers
During the year ended 31 December2019 there were no customers of the Group with the revenues greater than 10% of the total revenue of the Group *(2018: Nil).*

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

There is no impact on the Group's equity.

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

Credit risk

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

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

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

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

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

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

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

31 December 2019

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

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

31 December 2018

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

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

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

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

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

31 December 2019	***less than 3 months AED'000***	***4 to12 months AED'000***	***1-5 years AED'000***	***Total amount AED'000***
Bank borrowings	**23,498**	**39,576**	**31,843**	**94,917**
Trade and other payables	**-**	**57,464**	**-**	**57,464**
Due to related parties	**1,380**	**-**	**-**	**1,380**
Lease liabilities	**3,748**	**14,990**	**46,754**	**65,492**
	28,626	**112,030**	**78,597**	**219,253**

31 December 2018	*less than 3 months AED'000*	*4 to12 months AED'000*	*1-5 years AED'000*	*Carrying amount AED'000*
Bank borrowings	-	126,648	-	126,648
Trade and other payables	-	48,876	-	48,876
Due to related parties	1,576	-	-	1,576
	1,576	175,524	-	177,100

29 FAIR VALUE MEASUREMENT

Financial risk management
Financial instruments comprise financial assets and financial liabilities.

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

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

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

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

Assets measured at fair value

	31 December 2019 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Investments at fair value through profit or loss	**16,261**	**9**	**-**	**16,252**
Investments properties	**32,700**	**-**	**-**	**32,700**

	31 December 2018 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Investments at fair value through profit or loss	17,300	12	-	17,288
Investment properties	30,600	-	-	30,600

30 SUBSEQUENT EVENTS

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

31 RECLASSIFICATIONS

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

31 RECLASSIFICATIONS (continued)

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

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