

**GULFA MINERAL WATER AND PROCESSING INDUSTRIES  
CO. P.L.C.**

**DIRECTOR'S REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

# **Gulfa Mineral Water and Processing Industries Co. P.L.C.**

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## **DIRECTOR'S REPORT AND FINANCIAL STATEMENTS for the year ended 31 December 2018**

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**Director's Report**

The Board Of Directors of Gulfa Mineral Water and Processing Industries Co. P.L.C. (the "Company") has the pleasure in submitting the statement of financial position for the Company as at **31 December 2018** and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended **31 December 2018** and related independent auditor's report.

**Revenues**

The Company has achieved a sales volume of **49,991** million litres during **2018** compared to **74,542** million litres in **2017**.

The Company had net sales value AED **25.1** million for **2018** compared to AED **39.3** million for **2017**. This is due to the decline in average selling price.

**Company's net loss**

The Company has reported a net loss of AED **16.6** million in **2018** compared to a net loss of AED **6.5** million in **2017** after deducting the concession fees charges amounted to AED **2** million (2017: AED **2** million).

The Board of Directors also wishes to express its gratitude and appreciation to His Highness, Sheikh Hemaïd Bin Rashid Al-Neaimy, Member of the Supreme Council, Ruler of Ajman, for his support towards the Company.

Finally, we thank the entire staff of the Company for their efforts in accomplishing and achieving the Company's goals.

On behalf of the Board

  
Mr. Khalifa Hasan Ali Alhammadi  
Chairman

## *Independent auditor's report to the shareholders of Gulfa Mineral Water and Processing Industries Co. P.L.C.*

### *Report on the audit of the financial statements*

#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gulfa Mineral Water and Processing Industries Co. P.L.C. (the "Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

#### *Our audit approach*

##### **Overview**

- Key Audit Matters
- Impairment of trade receivables.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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## Independent auditor's report to the shareholders of Gulfa Mineral Water and Processing Industries Co. P.L.C. (continued)

### Our audit approach (continued)

#### **Key audit matters**

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

Key audit matter	How our audit addressed the Key audit matter
<p style="color: #C8513E;"><i>Impairment of trade receivables</i></p> <p>As at 31 December 2018, the Company had a trade receivables balance of AED 10,766,719 and a loss allowance against it of AED 7,956,204.</p> <p>Management performed an assessment of the recoverability of the Company's trade receivables to determine whether any were impaired. The Company also adopted new International Financial Reporting Standard 9, <i>Financial instruments</i> (IFRS 9) with effect from 1 January 2018, which provides specific guidance in this area of impairment loss allowances.</p> <p>We considered this to be a key audit matter due to the significant judgement required in determining the recoverability of trade receivables and the potentially material adjustments resulting from it that could affect the Company's financial position as at 31 December 2018 and its reported results for the year then ended.</p> <p>The computation of a trade receivables loss allowance was made by reference to the lifetime expected credit losses of the trade receivables adjusted by forward looking information in line with the requirements of, and guidance in, IFRS 9 guidance. As a result of the assessment performed, management recorded an additional loss allowance of AED 2,561,765 for the year ended 31 December 2018, to give a total loss allowance of AED 7,956,204 as at that date.</p>	<p>Our audit procedures included carrying out the following:</p> <ul style="list-style-type: none"> <li>• Agreed the detailed listing of the loss allowance recognised on trade receivables to the Company's trial balance;</li> <li>• Tested how the expected credit losses model had calculated the allowance on a lifetime basis, and how this compared with the guidance contained in IFRS 9. We also tested the mathematical accuracy of the calculation;</li> <li>• Tested the historic payment experience used as the starting point for the calculation of the lifetime expected credit losses;</li> <li>• Evaluated the appropriateness of adjustments for forward looking information to historical balances, loss rates and other information, including agreeing to supporting evidence;</li> <li>• Assessed the completeness and accuracy of data used in calculating the expected credit losses, including the appropriate exclusion of balances assessed individually;</li> <li>• Evaluated the appropriateness of the assumptions and judgements used by management to estimate how much of the balance is recoverable; and</li> <li>• Evaluated the adequacy of the disclosures in Note 8 to the financial statements in accordance with accounting standards.</li> </ul>

*Refer to Notes 8 in the financial statements for further details of the loss allowance and the implementation of IFRS 9.*

## *Independent auditor's report to the shareholders of Gulfa Mineral Water and Processing Industries Co. P.L.C. (continued)*

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### *Other information*

The Directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements and our auditor's report thereon).

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

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

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

### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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



## *Independent auditor's report to the shareholders of Gulfa Mineral Water and Processing Industries Co. P.L.C. (continued)*

### *Auditor's responsibilities for the audit of the financial statements*

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

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

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

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

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

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



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*Independent auditor's report to the shareholders of Gulfa Mineral Water and Processing Industries Co. P.L.C. (continued)*

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*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 we considered necessary for the purposes of our audit;
- ii) the 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 Company has maintained proper books of account;
- iv) the financial information included in the Directors' Report is consistent with the books of account of the Company;
- v) as disclosed in Note 1, the Company has not purchased or invested in any shares during the year ended 31 December 2018;
- vi) note 9 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

PricewaterhouseCoopers  
7 March 2019

Mohamed ElBorno  
Registered Auditor Number 946  
Dubai, United Arab Emirates



# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## STATEMENT OF FINANCIAL POSITION

	Note	At 31 December		1 January
		2018 AED	2017 AED (restated)	2017 AED (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	12,163,632	12,442,640	14,190,836
Intangible assets		98,826	129,234	-
Investment property	6	20,163,800	25,196,000	25,196,000
		32,426,258	37,767,874	39,386,836
<b>Current assets</b>				
Inventories	7	5,579,644	5,977,580	6,211,443
Trade and other receivables	8	3,887,578	12,561,569	14,482,614
Due from related parties	9	-	1,081,389	461,054
Cash and cash equivalents	10	2,038,264	7,183,247	15,491,054
		11,505,486	26,803,785	36,646,165
<b>Total assets</b>		<b>43,931,744</b>	<b>64,571,659</b>	<b>76,033,001</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Share capital	11	30,000,000	30,000,000	30,000,000
Statutory reserve	12	5,887,566	5,887,566	5,887,566
Voluntary reserve	13	234,067	234,067	234,067
Retained earnings		226,315	18,496,558	26,170,013
<b>Total shareholders' equity</b>		<b>36,347,948</b>	<b>54,618,191</b>	<b>62,291,646</b>
<b>LIABILITIES</b>				
<b>Non-current liability</b>				
Provision for employees' end of service benefits	16	2,218,034	3,376,909	5,424,234
<b>Current liabilities</b>				
Trade and other payables	17	5,365,762	6,530,852	8,018,399
Due to related parties	9	-	45,707	298,722
		5,365,762	6,576,559	8,317,121
<b>Total liabilities</b>		<b>7,583,796</b>	<b>9,953,468</b>	<b>13,741,355</b>
<b>Total shareholders' equity and liabilities</b>		<b>43,931,744</b>	<b>64,571,659</b>	<b>76,033,001</b>

  
 Mr. Ajeet Kumar  
 Senior Accountant

  
 Mr. Khalifa AL Hammadi  
 Chairman

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2018 AED	2017 AED
Revenue	18	25,118,747	39,358,498
Cost of sales	19	(26,012,272)	(35,992,314)
<b>Gross (loss)/profit</b>		(893,525)	3,366,184
Other income	23	159,864	1,119,839
General and administrative expenses	20	(3,175,725)	(3,623,900)
Selling and distribution expenses	21	(6,062,848)	(4,568,039)
Loss allowance	8	(1,553,396)	(2,767,539)
Loss from fair value adjustment on investment property	6	(5,032,200)	-
<b>Loss for the year</b>		(16,557,830)	(6,473,455)
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		(16,557,830)	(6,473,455)
Basic and diluted losses per share	15	(0.552)	(0.216)

## Gulfa Mineral Water and Processing Industries Co. P.L.C.

### STATEMENT OF CHANGES IN EQUITY

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Retained earnings AED	Total AED
<b>Balance at 1 January 2017</b> (restated)	30,000,000	5,887,566	234,067	1,217,013	37,338,646
Fair value adjustment on reclassification of land (Note 27)	-	-	-	24,953,000	24,953,000
<b>Restated total equity at the beginning of the financial year</b>	<b>30,000,000</b>	<b>5,887,566</b>	<b>234,067</b>	<b>26,170,013</b>	<b>62,291,646</b>
Dividends declared (Note 14)	-	-	-	(1,200,000)	(1,200,000)
Loss for the year	-	-	-	(6,473,455)	(6,473,455)
<b>Balance at 31 December 2017</b> (restated)	<b>30,000,000</b>	<b>5,887,566</b>	<b>234,067</b>	<b>18,496,558</b>	<b>54,618,191</b>
Impact of application of new accounting standard (Note 8)	-	-	-	(1,712,413)	(1,712,413)
<b>Balance at 1 January 2018</b> (restated)	<b>30,000,000</b>	<b>5,887,566</b>	<b>234,067</b>	<b>16,784,145</b>	<b>52,905,778</b>
Loss for the year	-	-	-	(16,557,830)	(16,557,830)
<b>Balance at 31 December 2018</b>	<b>30,000,000</b>	<b>5,887,566</b>	<b>234,067</b>	<b>226,315</b>	<b>36,347,948</b>

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2018 AED	2017 AED (restated)
<b>Cash flows from operating activities</b>			
Loss for the year		(16,557,830)	(6,473,455)
<b>Adjustments for:</b>			
Depreciation	5	2,581,360	2,338,742
Amortisation		30,408	22,806
Provision for obsolete, slow moving, and defective inventories	7	801,586	-
Loss allowance on trade and other receivables	8	1,553,396	2,767,539
Gain on sale of property, plant and equipment	23	(19,982)	(520,000)
Reversal of provision for employees' end of service benefits	16	(250,771)	(190,793)
Loss from fair value adjustment to investment property	6	5,032,200	-
<b>Operating cash flows before changes in working capital</b>		<b>(6,829,633)</b>	<b>(2,055,161)</b>
Payment of employees' end of service benefits	16	(887,057)	(1,823,343)
<b>Changes in working capital:</b>			
Trade and other receivables		5,408,182	(846,494)
Inventories	7	(403,650)	233,863
Due from related parties, net of transfer of provision for employees' end of service benefits		1,081,389	(653,524)
Trade and other payables		(1,165,090)	(1,487,547)
Due to related parties, net of transfer of provision for employees' end of service benefits		(66,754)	(253,015)
<b>Net cash used in operating activities</b>		<b>(2,862,613)</b>	<b>(6,885,221)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(2,303,279)	(635,586)
Proceeds from sale of property, plant and equipment	5	20,909	520,000
Purchase of intangible assets		-	(107,000)
<b>Net cash used in investing activities</b>		<b>(2,282,370)</b>	<b>(222,586)</b>
<b>Cash flows from financing activity</b>			
Dividends paid	14	-	(1,200,000)
<b>Net decrease in cash and cash equivalent</b>		<b>(5,144,983)</b>	<b>(8,307,807)</b>
Cash and cash equivalents at the beginning of the year		7,183,247	15,491,054
<b>Cash and cash equivalents at the end of the year</b>	10	<b>2,038,264</b>	<b>7,183,247</b>

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

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## Notes to the financial statements for the year ended 31 December 2018

### 1 GENERAL INFORMATION

Gulfa Mineral Water and Processing Industries Co. P.L.C. (the "Company") was established in Ajman by an Emiri decree number 13 issued by His Highness the Ruler of Ajman on 28 March 1977. The Company started its operations on 24 May 1977. The Company is a publicly listed company on the Dubai Financial Market since 17 April 2007. The Company's registered address is at Gulfa Street, P.O.Box 929, Ajman, United Arab Emirates.

As of 31 December 2017, the Company was 92.7% effectively owned subsidiary of Kuwait Food Company (Americana), a company incorporated in Kuwait (the "Former Parent Company"). The Ultimate parent of the Company was Adeptio AD Holdings SPC Ltd. ("Former Ultimate Parent Company"), a company incorporated in Dubai.

On 5 November 2018, the Former Parent Company sold its entire directly and indirectly owned shares to various individual investors, accordingly the Parent Company lost control of the Company as at the date thereof.

The Company did not purchase or invest in any shares during the year ended 31 December 2018 and 2017.

The Company's plant is located in Muzeirah Street Masfout, P.O. Box 929, Ajman, United Arab Emirates. The main activities of the Company are production and bottling of mineral water, manufacturing and trading of juices, food stuff preforms and screw caps.

As required by Securities and Commodities Authority ("SCA") through their letter with reference number 411/2018 dated 9 July 2018 (Exposure to Abraaj Group Companies), we disclose that the Company does not have any exposure to Abraaj Group of companies and any of the funds that it manages.

The financial statements were approved for issue by the board of directors on 7 March 2019

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied during the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS and applicable provisions of UAE law. The financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, except for investment property measured at fair value.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### Going concern

The Company incurred a loss of AED 16,557,830 for the year ended 31 December 2018 (for the year ended 31 December 2017: loss of AED 6,473,455) and had negative operating cash flows of AED 2,862,613 (2017: AED 6,885,221). These factors could indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As a result, management performed a detailed assessment for the appropriateness of the Company's use of the going concern assumption through review of its cash flow projections covering a 12-month period from the date of approval of these financial statements. These projections indicate that the Company will be able to generate sufficient cash to meet its future obligations. The Board of Directors are therefore confident that the Company will be able to meet its obligations as and when they fall due and to carry on its business without significant curtailment of operations. Accordingly, these financial statements have been prepared on a going concern basis.

(a) *Amendment to standards and interpretations issued and effective during the financial period beginning 1 January 2018:*

- IFRS 9, 'Financial instruments: Classification and Measurement' (effective from 1 January 2018); and
- IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018).

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

(b) *New standard issued but not effective until financial periods beginning after 1 January 2018 and not early adopted by the Company:*

- IFRS 16, 'Leases' (effective from 1 January 2019).

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Management have performed an initial assessment of the Company's leasing arrangements over last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of AED 3,358,218 (Note 25).

For these lease commitments the Company expects to recognise right-of-use assets of approximately AED 2,616,382 on 1 January 2019 and lease liabilities of AED 2,644,141 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets and net current assets will be AED 786,038 lower due to the presentation of a portion of the liability as a current liability.

The Company expects that net profit/loss will decrease by approximately AED 36,590 for 2019 as a result of adopting the new rules. The standard will result in the Company recognising depreciation of lease assets separately from interest on lease liabilities in the income statement.

Operating cash flows will increase and financing cash flows decrease by approximately AED 910,920 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other IFRSs or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Company.

#### 2.2 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

#### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Company that makes strategic decisions. Refer to the detailed note 26.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

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## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Financial assets

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The Company has adopted IFRS 9 using a modified retrospective approach, with a date of initial application as of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

All other assets that were previously classified as loans and receivables will now be classified as assets measured at amortised cost under IFRS 9. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

The adoption of IFRS 9 requires the recognition of loss allowance based on the new impairment model - expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. This change has resulted an impact of AED 1,712,413 on opening balance of retained earnings/equity as of 1/1/2018.

##### 2.4.1 Classification

From 1 January 2018, the Company classifies its financial assets at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

##### 2.4.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

##### 2.4.3 Impairment of financial assets

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4.4 Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. This change has resulted an impact of AED 1,712,413 on opening balance of retained earnings/equity.

##### 2.4.4.1 Classification

The Company classifies financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at the initial recognition of the asset.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' (Note 8), 'cash and cash equivalents' (Note 10), and 'due from related parties' (Note 9) in the statement of financial position. The Company's exposure to various risks associated with holding these financial instruments is discussed in Note 3.1. A detailed breakdown for the classification of financial instruments is disclosed on Note 24 to the financial statements.

##### 2.4.4.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

In the absence of reliable fair value estimates, Management have accounted for the available for sale financial assets at cost using the exemption under IAS 39 when the probabilities of the various estimates cannot be reasonably assessed.

##### 2.4.4.3 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised within profit or loss in the statement of comprehensive income.



# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying value of the replaced part is de-recognised. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation on the assets is calculated using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives, as follows:

	Years
Building	20
Machinery and equipment	5 – 7
Furniture and fixtures	4 – 5
Motor vehicles	3 – 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised within 'other income' in the statement of comprehensive income.

Capital work-in-progress is stated at cost and includes property and equipment that is being developed for future use. When commissioned, capital work-in-progress is transferred to the respective category, and depreciated in line with the Company's policy.

#### 2.7 Intangible assets

##### *Computer software*

Computer software is capitalised at cost only when future economic benefits are probable. Cost includes purchase price together with any directly attributable expenditure.

When the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at the end of each reporting period for possible reversal of impairment loss.

Computer software is amortised on a straight-line basis over the estimated useful life of 5 years.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.8 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company is classified as investment property. Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value. The fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets. Valuations are performed as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

Changes in fair values are recognised in the statement of comprehensive income. Investment properties are derecognised when they have been disposed. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in the statement of comprehensive income to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increase directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to income statement. Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance and is expensed in the period in which it is incurred. Land is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with the asset's carrying amount and are recognised in the income statement within 'Other income'.

#### 2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are identified at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

#### 2.11 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash on hand, balances in current accounts and term deposits with original maturities of three months or less.

#### 2.13 Share capital

Ordinary shares are classified as equity.

#### 2.14 Employees' end of service benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the reporting period.

A provision is made using for the full amount of end of service benefits due to eligible employees in accordance with Labour Laws applicable to the United Arab Emirates, for their period of service up to the end of the reporting period. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

#### 2.15 Trade and other payables

Trade and other payable are obligations payable to suppliers and accrued staff benefits and other accruals. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Financial liabilities included in accounts payable and other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.16 Revenue

IFRS 15 establishes a comprehensive framework for determining whether, how and when revenue is recognised. It replaced IAS 18 Revenues, IAS 11 Construction contracts and related interpretations.

The Company has adopted IFRS 15 using the modified retrospective transition approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 thus the comparatives for year ended 31 December 2017 will not be restated.

The main impact of IFRS 15 on the financial statements of the Company is attributed to the following:

- Sales return – IFRS 15 requires that a variable consideration in relation to sales return, shall be recognised upon recognition of revenue rather than of when the return actually occurs. After adoption of IFRS 15, the Company should recognise:
  - (a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled.
  - (b) A corresponding refund liability and;
  - (c) An asset and corresponding adjustment to cost of sales for its right to recover products from its customers on settling the refund liability.
- Progressive rebates – The Company provide progressive rebates to its customers whereby such customers are provided with additional discounts where they meet specified sales targets. Such discounts represent IFRS 15 variable consideration and will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Changes in accounting policies resulting from the adoption of IFRS 15 has not resulted in any material impact on the opening balance of retained earnings/equity as of 1 January 2018.

#### 2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.18 Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit/ (loss) attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of equity shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company does not have any dilutive potential ordinary shares.

#### 2.20 Dividends distributions

Dividends to the Company's shareholders are recognised in the financial statements in the period in which the dividends are approved by the Company's shareholders.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Company's activities may expose it to mainly credit risk and liquidity risk. The management carries out risk assessment for managing each of these risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

##### (a) Market risk

###### (i) Foreign exchange risk

The Company is not exposed to a significant foreign exchange risk since majority of the transactions are denominated in AED.

###### (ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to the individual instrument or its issuers or factors affecting all the instruments trade in the market. The Company has no exposure to price risk.

###### (iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company had no exposure to interest rate risk as at 31 December 2018 as it does not carry any significant interest bearing assets or liabilities.

##### (b) Credit risk

Credit risk mainly arises from, 'trade and other receivables' (Note 8), due from related parties (Note 9) and 'cash and cash equivalents' (Note 10). The Company has policies in place to minimise its exposure to credit risk. The maximum exposure to credit risk is represented by the carrying value of financial assets on the statement of financial position date.

##### *Credit risk related to financial instruments and cash deposit*

Credit risk from balances with banks and other financial institutions is managed by the Company by investing surplus funds only with approved and reputable counterparties and within credit limits assigned to each counterparty. Bank deposits, and term deposits are limited to high-credit-quality financial institutions. The table below presents an analysis of cash and bank balances by rating agency designation at the end of reporting period based on Moody's ratings or its equivalent for the main banking relationships:

	2018 AED	2017 AED
<i>Cash and cash equivalents</i>		
Aa3	1,898,384	7,018,368
A3	93,114	96,114
	1,991,498	7,114,482

The table above cash and cash equivalents exclude cash on hand amounting to AED 46,766 (2017: AED 68,765).

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

The table below presents the Company's financial liabilities which are all due within 12 months. The amounts disclosed in the table are the contractual undiscounted cash flows at maturity. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2018 AED	2017 AED
<b>Financial liabilities</b>		
Trade and other payables	5,365,762	6,530,852
Due to related parties	-	45,707
<b>Total</b>	<b>5,365,762</b>	<b>6,576,559</b>

#### 3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. The gearing ratio is not applicable for the Company as it does not have any outstanding debt.

#### 3.3 Fair value estimation

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.3 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market is based on valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, these instruments are included in level 2.

If one or more of the significant inputs is not based on observable market data, these instruments are included in level 3. There were no transfers between level 2 and level 3 during the year.

The following table presents the Company's assets that are measured at fair value at the balance sheet date.

	2018 Level 3	2017 Level 3
<b>Assets</b>		
Investment property (note 6)	20,163,800	25,196,000

The carrying value less loss allowance of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Other receivables and payables approximate their fair values.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgements 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.

#### 4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

##### *Impairment of financial assets*

The impairment of trade receivables and other receivables is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

##### *Investment property*

The fair value of investment properties is determined by using valuation techniques. Further details of the judgements and assumptions made, see Note 6. At 31 December 2018, if the price per square feet increased/decreased by 10%, with all other variables held constant, the value of the investment property would have been higher/lower by AED 2.02 million (2017: AED 2.52 million higher/lower).

## Gulfa Mineral Water and Processing Industries Co. P.L.C.

Notes to the financial statements for the year ended 31 December 2018 (continued)

### 5 PROPERTY, PLANT AND EQUIPMENT

Cost	Land* AED	Building AED	Machinery and equipment AED	Furniture and fixtures AED	Motor vehicles AED	Capital work- in-progress AED	Total AED
At 1 January 2017 (restated)	-	20,000,972	50,208,067	2,383,593	2,519,368	3,829,809	78,941,809
Additions during the year	-	-	497,093	64,603	73,890	-	635,586
Disposals during year	-	(3,160)	(3,830,030)	(152,759)	(101,500)	-	(4,087,449)
Transfers	-	-	3,784,769	-	-	(3,829,809)	(45,040)
At 31 December 2017 (restated)	-	19,997,812	50,659,899	2,295,437	2,491,758	-	75,444,906
Additions during the year	-	153,740	771,705	168,085	-	1,209,749	2,303,279
Disposals during the year	-	-	(111,650)	(3,590)	-	-	(115,240)
Transfers	-	-	1,209,749	-	-	(1,209,749)	-
At 31 December 2018	-	20,151,552	52,529,703	2,459,932	2,491,758	-	77,632,945
<b>Accumulated depreciation</b>							
At 1 January 2017 (restated)	-	14,270,951	45,979,075	2,055,178	2,445,769	-	64,750,973
Charge for the year	-	445,496	1,689,318	129,357	74,571	-	2,338,742
Disposals during year	-	(3,160)	(3,830,030)	(152,759)	(101,500)	-	(4,087,449)
At 31 December 2017 (restated)	-	14,713,287	43,838,363	2,031,776	2,418,840	-	63,002,266
Charge for the year	-	443,197	1,966,186	129,850	42,127	-	2,581,360
Disposals during year	-	-	(111,247)	(3,066)	-	-	(114,313)
At 31 December 2018	-	15,156,484	45,693,302	2,158,560	2,460,967	-	65,469,313
<b>Net book amount</b>							
At 31 December 2018	-	4,995,068	6,836,401	301,372	30,791	-	12,163,632
At 31 December 2017 (restated)	-	5,284,525	6,821,536	263,661	72,918	-	12,442,640
At 1 January 2017 (restated)	-	5,730,021	4,228,992	328,415	73,599	3,829,809	14,190,836

At 31 December 2018, Capital work-in-progress mainly comprise of machinery and equipment that are being prepared for internal use. During the year, assets of AED 1,209,749 (2017: AED 3,829,809) were transferred from capital work in progress to machinery and equipment as they were completed and ready for use.

\*Please refer to Note 27.

## Gulfa Mineral Water and Processing Industries Co. P.L.C.

### Notes to the financial statements for the year ended 31 December 2018 (continued)

#### 5 PROPERTY, PLANT AND EQUIPMENT (continued)

##### Depreciation allocation

	2018 AED	2017 AED
Cost of sales (Note 19)	2,391,466	2,202,412
General and administrative expenses (Note 20)	159,986	110,419
Selling and distribution expenses (Note 21)	29,908	25,911
	<u>2,581,360</u>	<u>2,338,742</u>

#### 6 Investment property

	2018 AED	2017 AED (restated)	2016 AED (restated)
Balance at the beginning of the year *	25,196,000	25,196,000	25,196,000
Loss from fair value adjustment	(5,032,200)	-	-
Balance at the end of the year	<u>20,163,800</u>	<u>25,196,000</u>	<u>25,196,000</u>

\*Refer to Note 27.

Investment property comprises of the land in Ajman. During 2018, management have chosen to fair value its investment property as it shows a more reliable view of the Company's financial position. The fair values are determined by professionally qualified external valuers once every year.

A formal valuation of the Company's investment property was undertaken by an independent qualified appraiser who is not related to the Company and holds a recognised relevant professional qualification and has recent experience in the United Arab Emirates for valuation of land.

The fair valuation for the land was done using the market comparable approach of valuation which reflects recent transactions and asking prices for similar properties. At 31 December 2018 and 2017, the Company's investment property is classified at level 3 in the fair value hierarchy and there were no transfers between level 1, 2 and 3 during the year 2018 and 2017.

Based on such valuation, Management carried out an internal valuation of the land to update their assessment as of 31 December 2018 and determined the fair value of the Company's investment at AED 20,163,800 (2017: AED 25,196,000).

#### 7 INVENTORIES

	2018 AED	2017 AED
Raw materials	3,196,832	2,655,202
Spare parts	2,519,749	2,475,235
Finished products	911,160	1,093,654
	<u>6,627,741</u>	<u>6,224,091</u>
Allowance for slow moving inventories	(1,048,097)	(246,511)
	<u>5,579,644</u>	<u>5,977,580</u>

The cost of inventories recognised as expense and included in costs of sales (Note 19) for the year ended 31 December 2018 amounted to AED 17,563,566 (31 December 2017: AED 27,151,435).

Movement on the Company's provision for impairment of inventories is as follows:

	2018 AED	2017 AED
At the beginning of the year	246,511	246,511
Charge for the year	801,586	-
At the end of the year	<u>1,048,097</u>	<u>246,511</u>



# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 8 TRADE AND OTHER RECEIVABLES

	2018 AED	2017 AED
Trade receivables	10,766,719	16,195,613
Less: loss allowance	(7,956,204)	(5,394,439)
	2,810,515	10,801,174
Advances to suppliers	883,315	897,185
Prepayments	232,171	283,782
Loss allowance for advances to suppliers and prepayments	(906,948)	(202,904)
	208,538	978,063
Deposits	840,732	782,332
Other receivables	27,793	-
	3,887,578	12,561,569

The Company has a broad base of customers with no concentration of credit risk within trade receivables at 31 December 2018 and 2017.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

	2018 AED	2017 AED
Not past due	1,990,090	5,034,269
Up to 3 months	494,933	3,371,769
Over 3 months	8,281,696	7,789,575
	10,766,719	16,195,613

#### Loss allowance

	2018 AED	2017 AED
Not past due	89,891	-
Up to 3 months	141,714	167,427
Over 3 months	7,724,599	5,227,012
	7,956,204	5,394,439

The loss allowance against not past due receivables reflect loss allowance against specific customers considered having a higher probability of default.

The movement in the Company's loss allowance on receivables is as follows:

	2018 AED	2017 AED
At 1 January	5,394,439	2,829,804
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9 under modified retrospective approach	1,712,413	-
Loss allowance	849,352	2,564,635
At 31 December	7,956,204	5,394,439

The creation and release of the loss allowance on receivables have been included in the statement of income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The majority of the Company's trade and other receivables are denominated in AED.

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 8 TRADE AND OTHER RECEIVABLES (continued)

The movement in the Company's loss allowance for advances to suppliers and prepayments is as follows:

	2018 AED	2017 AED
At 1 January	202,904	-
Loss allowance	704,044	202,904
At 31 December	906,948	202,904

### 9 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the shareholders, key management personnel, directors and businesses including affiliates controlled directly or indirectly by the shareholders and directors or over which they exercise significant management influence. A fellow subsidiary is an entity which comes under the common controller of the Former Parent Company.

#### (a) Related party transactions

During the year, the Company entered into the following transactions with related parties at mutually agreed prices:

	Relationship	2018 AED	2017 AED
Gulf Food Industries Company	Fellow subsidiary		
Recharges of salaries and other benefits		277,349	363,373
Transfer of employees' end of service benefits from/(to) related party (Note 16)		328,606	(33,189)
Recharges of general and administrative expenses		-	22,984
Egyptian Canning Company - Americana	Fellow subsidiary		
Sale of machinery		-	300,000
Kuwait food Co. (Americana) - Main Office	Fellow subsidiary		
Recharges of general and administrative expenses		141,498	1,893

#### (b) Related party balances

The balances with related parties at year end are as follows:

	Relationship	2018 AED	2017 AED
<i>Due from related parties</i>			
Gulf Food Industries Company	Fellow subsidiary	-	781,389
Egyptian Canning Company - Americana	Fellow subsidiary	-	300,000
		-	1,081,389
<i>Due to related parties</i>			
Kuwait Food Company S.A.K. (Americana) – Kuwait	Parent Company	-	43,814
Kuwait food Co. (Americana) - Main Office	Fellow subsidiary	-	1,893
		-	45,707

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (b) Related party balances (continued)

The shareholders of the Company changed on 5 November 2018, Kuwait Food Company (Americana) K.S.C.C. sold its shares to various shareholders. The Company has no transactions or balances with related parties after 5 November 2018.

#### (c) Key management personnel

	2018 AED	2017 AED
Compensation to key management personnel comprises:		
Salaries and other short term employee benefits	52,846	543,333
	52,846	543,333

### 10 CASH AND CASH EQUIVALENTS

	2018 AED	2017 AED
Cash on hand	46,766	68,765
Call deposits	94,403	1,257,360
Cash at banks	1,897,095	5,857,122
	2,038,264	7,183,247

The call deposits earn annual interest rate of 0.05 % (2017: 0.05%) from local banks.

### 11 SHARE CAPITAL

The Company's authorised share capital is AED 40 million (2017: AED 40 million) comprising of 40 million shares with nominal value of AED 1 each as at 31 December 2018. The issued and fully paid up capital is AED 30 million comprising of 30 million shares with nominal value of AED 1 each (31 December 2017: 30 million shares with nominal value of AED 1 each). All shares are were paid in cash.

### 12 STATUTORY RESERVE

As required by the Company law of United Arab Emirates, 10% of the profit for the year is to be transferred to a statutory reserve up to 50% of the share capital.

The shareholders may resolve to discontinue such annual transfers as reserve equals one half of the share capital. This reserve is not available for distribution.

### 13 VOLUNTARY RESERVE

In compliance with the Company's articles of association, the Board of Directors determine a percentage of net profit to be transferred to the voluntary reserve. The transfer may be stopped by a resolution adopted by the ordinary assembly of the Company as recommended by the Board of Directors. There are no restrictions on distribution from the voluntary reserve.

### 14 DIVIDENDS

During the year, the Company did not declare or distribute any dividends for the year ended 31 December 2018 (2017: declared and distributed a dividend of AED 0.04 per share amounting to AED 1,200,000).

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

Notes to the financial statements for the year ended 31 December 2018 (continued)

## 15 LOSS PER SHARE

	2018 AED	2017 AED
Loss for the year	(16,557,830)	(6,473,455)
Weighted average number of ordinary shares for purposes of basic earnings	30,000,000	30,000,000
Basic and diluted loss per share	(0.552)	(0.216)

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential ordinary shares. On 31 December 2018 and 31 December 2017, the Company did not have any converted ordinary shares. Therefore, losses per share equals the basic losses per share.

## 16 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	Note	2018 AED	2017 AED
Balance at the beginning of the year		3,376,909	5,424,234
(Reversal)/charge for the year	22	(250,771)	(190,793)
Transfers from/(to) related party	9	(21,047)	(33,189)
Payments during the year		(887,057)	(1,823,343)
Balance at the end of the year		2,218,034	3,376,909

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2018, using the projected unit credit method, in respect of employees' end of service benefits payable under the applicable Local Labour Laws. Under this method an assessment has been made of the employees' expected service life with the Company and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 2% (2017: 2%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.5 % (2017: 3.03%).

## 17 TRADE AND OTHER PAYABLES

	2018 AED	2017 AED
Trade payables	2,274,809	2,380,063
Accruals	2,637,450	3,687,529
Employees other benefits	395,214	441,926
Other payables	58,289	21,334
	5,365,762	6,530,852

## 18 REVENUE

	2018 AED	2017 AED
Sales	28,553,391	45,300,722
Rebates on trade	(3,434,644)	(5,942,224)
	25,118,747	39,358,498

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

## Notes to the financial statements for the year ended 31 December 2018 (continued)

### 19 COST OF SALES

	Note	2018 AED	2017 AED
Materials consumed (Note 7)	7	17,563,566	27,151,435
Staff costs	22	4,057,240	4,638,467
Depreciation	5	2,391,466	2,202,412
Ajman Government – Concession fee*		2,000,000	2,000,000
		26,012,272	35,992,314

\*In accordance with the letter dated 8 February 2013, received from the Rulers' Court of Ajman, the Ajman Government agreed to receive a sum of AED 2,000,000 as an annual concession fee for the use of natural resources from the Company for a period of two years effective 1 January 2015 to 31 December 2017. The above concession fee agreement has been extended until 31 December 2018.

### 20 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 AED	2017 AED
Staff costs (Note 22)	1,382,671	2,146,094
Entertainment	364,535	321,088
Repairs, maintenance and utilities	357,937	313,167
Professional and legal	295,753	312,282
Regional expenses	230,000	155,909
Depreciation (Note 5)	159,986	110,419
Others	384,843	264,941
	3,175,725	3,623,900

### 21 SELLING AND DISTRIBUTION EXPENSES

	2018 AED	2017 AED
Staff costs (Note 22)	4,347,801	3,496,398
Vehicle expenses	1,083,215	461,805
Advertisement	192,737	276,549
Depreciation and amortisation	60,316	48,717
Others	378,779	284,570
	6,062,848	4,568,039

### 22 STAFF COSTS

	2018 AED	2017 AED
Salaries and wages	8,281,117	7,698,440
Other benefits	1,735,078	2,773,312
End of service benefits (Note 16)	(228,483)	(190,793)
	9,787,712	10,280,959
Included under:		
Cost of sales (Note 19)	4,057,240	4,638,467
General and administrative expenses (Note 20)	1,382,671	2,146,094
Selling and distribution expenses (Note 21)	4,347,801	3,496,398
	9,787,712	10,280,959

# Gulfa Mineral Water and Processing Industries Co. P.L.C.

Notes to the financial statements for the year ended 31 December 2018 (continued)

## 23 OTHER INCOME

	2018 AED	2017 AED
Gain on disposal of property, plant and equipment	19,982	520,000
Other	139,882	599,839
	<u>159,864</u>	<u>1,119,839</u>

## 24 FINANCIAL INSTRUMENTS

The accounting policies for the financial instruments have been applied to the line items below:

	2018 AED	2017 AED
<b>Financial assets</b>		
Due from related parties (Note 9)	-	1,081,389
Trade and other receivables (excluding advances to suppliers and prepayments (Note 8))	3,679,040	11,583,506
Cash and cash equivalents (Note 10)	2,038,264	7,183,247
	<u>5,717,304</u>	<u>19,848,142</u>

	2018 AED	2017 AED
<b>Financial liabilities</b>		
Due to related parties (Note 9)	-	45,707
Trade and other payables (Note 17)	5,365,762	6,530,852
	<u>5,365,762</u>	<u>6,576,559</u>

## 25 CONTINGENCIES AND COMMITMENTS

	2018 AED	2017 AED
Letters of guarantee	300,000	300,000

### *Non-cancellable operating lease commitments*

The future lease payments under non-cancellable operating leases are as follows:

	2018 AED	2017 AED
No later than one year	910,920	227,520
Later than one year and no later than five years	2,447,298	329,542
	<u>3,358,218</u>	<u>557,062</u>

## 26 SEGMENT INFORMATION

In determining the Company's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources. Management has concluded that the Company has a single operating segment, being the production and bottling of mineral water and screw caps in the United Arab Emirates.

## Gulfa Mineral Water and Processing Industries Co. P.L.C.

### Notes to the financial statements for the year ended 31 December 2018 (continued)

#### 27 RESTATEMENT

During the year ended 31 December 2018, management has restated the prior year financial statements on the account that the land was erroneously classified as investment property as only an insignificant portion of land is utilised for operational use and such land cannot be sold separately, accordingly, the land is reclassified under investment property and measured at fair value in accordance with the Company's accounting. The impact of the restatement is limited to the Company's balance sheet and is summarised in the table below:

	1 January 2017 As originally stated AED	Prior year adjustment AED	1 January 2017 As restated AED
<b>Balance sheet</b>			
Property, plant and equipment	14,433,836	(243,000)	14,190,836
Investment property	-	25,196,000	25,196,000
Net impact on total assets	<b>14,433,836</b>	<b>24,953,000</b>	<b>39,386,836</b>
Retained earnings and net impact on total equity	1,217,013	24,953,000	26,170,013
	<b>31 December 2017 As originally stated AED</b>	<b>Prior year adjustment AED</b>	<b>31 December 2017 As restated AED</b>
<b>Balance sheet</b>			
Property, plant and equipment	12,685,640	(243,000)	12,442,640
Investment property	-	25,196,000	25,196,000
Net impact on total assets	<b>12,685,640</b>	<b>24,953,000</b>	<b>37,638,640</b>
(Accumulated losses)/retained earnings and net impact on total equity	(6,456,442)	24,953,000	18,496,558

There is no impact on the statement of comprehensive income. There was no adjustment to the fair value during the year ended 31 December 2017.