DUBAI REFRESHMENT (P.J.S.C.)®

ANNUAL REPORT 2019

دبـــي للـمرطبــات (ش.م.ع)
DUBAI REFRESHMENT (P.J.S.C)®

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CHAIRMAN'S REPORT

Dear Shareholders,

It is my pleasure to once again share with you business highlights of Dubai Refreshment Company.

The year 2019 was a year that tested Dubai Refreshment Company (DRC) strength and ability to deal with adversity. I am happy to report that we have been able to successfully pass this test and we have reset the company back on the right track after a very challenging 2018.

In my last year's report, I highlighted the strategies we were pursuing to deal with a very challenging new business environment. The strategies included investing behind new businesses, developing new partners, and focusing on controlling our cost. Throughout 2019 we developed and executed the necessary plans to implement these strategies, and we were able to achieve considerable success behind these initiatives. Some of the highlights that I can share with you are:

- We took advantage of opportunistic export opportunities which delivered 23% volume growth on exports.
- Local business benefited from a range of new packages and new brands initiatives which delivered an 8% volume growth. This was achieved despite challenging market conditions, which saw many businesses experiencing profits drop in 2019.
- We have signed new partnership agreements with Britvic and PepsiCo to bring new range of exciting drinks to the market. They include Robinsons Cordials, Teisseire Syrups and Britvic mixers range. Early results are very encouraging for these products.
- We have done tremendous work on our sustainability agenda, which helped reduce our carbon foot print and significantly reduced our water and energy consumption. As a result of our work in this area DRC was awarded the Gold Star Award in Dubai Green Industrial Award issued by Dubai Government.

The company continues to develop its relationship with all its current and potential new partners. Our aim is to expand these relationships and expand our portfolio with the addition of new brands that can significantly improve our top and bottom lines.

The work that was accomplished in 2019 as described above has had tremendous impact on our financial results with operating profits increasing by 79% vs. last year. The company was able to generate significant cash from operations, with very little debt, and we are currently looking at significant initiatives to utilize this financial flexibility, including rewarding our shareholders with an increase in dividends per share. It is important to keep in mind that we are making this progress despite unprecedented market and regulatory challenges which drive us to maintain a conservative fiscal strategy.

Revenues

The year 2019 saw an increase in volumes and net revenues in both Local and Exports markets. DRC achieved total net revenues of AED 688 million (AED 636 million after IFRS 15 adjustment), which represents an increase of 6% as compared to 2018.

Despite the challenges faced in 2019 and the uncertain regional outlook for the coming year, DRC will focus on growing its share of the local market and on increasing its exports to GCC and African countries by pursuing new initiatives that revive the carbonated soft drinks business and by expanding the product range with PepsiCo as well as other companies that we have partnered with.

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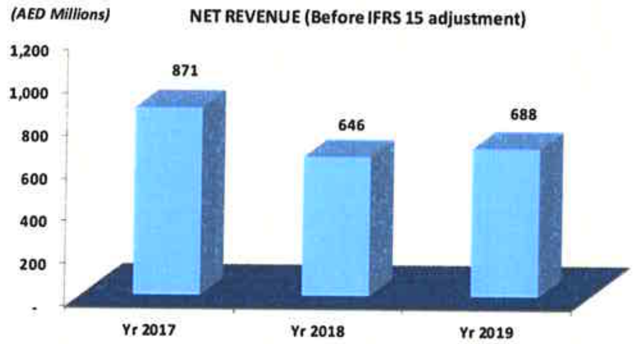
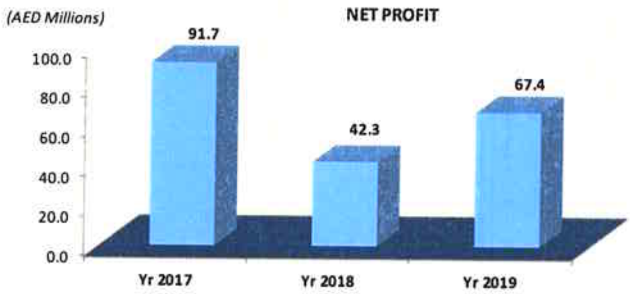


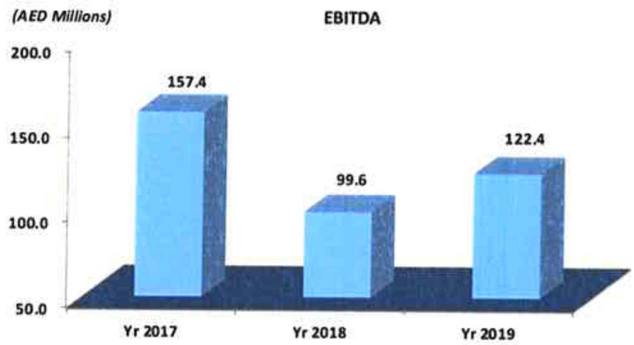
Profitability

Total Net Profits increased by 59% in 2019 to reach AED 67.4 Million or 9.8% of Net Revenues versus AED 42.3 Million or 6.5% of Net Revenues in 2018.

Savings in raw material prices as well as cost control initiatives, resulted in a significant reduction in operating expenses. Controlled expenses coupled with increase in sales led to improved profitability.

DRC has been able to maintain a solid level of operating profitability as measured by EBITDA, which amounted to AED 122.4 Million or 18% of net revenues in 2019 versus AED 99.6 Million or 15% of net revenues in 2018.





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Cash Flow:

In 2019, DRC generated AED 149.9 million (21.8% of revenues) from operations, which reflects sound financial management strategy. During the year, the company paid AED 41.94 million in dividends to shareholders and repaid loans of AED 44.2 million related to the Dubai Investment Park (DIP) project. DRC held AED 120.3 million as cash and cash equivalents at the end of 2019.

We believe with the new factory being operational, many potential business opportunities will continue to be available to DRC. The management and the Board of Directors are committed to consider these opportunities as they arise and to take advantage of the best available options.

Capital Projects

In order to support its growth strategy and to optimise cost, DRC invested in improving its manufacturing infrastructure in year 2019. DRC completed the construction of a solar power facility to generate approximately 4 megawatts of power from solar energy by utilizing the rooftop of the new DIP factory. The facility is currently fully operational and generating significant electricity savings. Similarly, and in order to improve further on its distribution infrastructure, DRC has started in 2018 the construction of a Labour accommodation in DIP which is expected to be completed in the second half of 2020. DRC has in addition replaced its vehicle fleet with more modern, more energy efficient and temperature-controlled vehicles, which will allow us to distribute a bigger range of products at a more efficient cost.

On behalf of the Board of Directors, I would like to express my gratitude and appreciation to leaders of the UAE, His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister of the UAE and ruler of Dubai and their brothers and members of Federal National Council for providing us with the business environment and infrastructure necessary to build a strong and prosperous business. Their continuous support has greatly contributed to our success.

Further, I would like to thank all the people who continue to provide their support and demonstrate their commitment and dedication towards achieving our objectives. Our employees, shareholders, customers, suppliers, and business partners are all equally important to us in our efforts to seek a better future for all.

Thank you.
On behalf of the Board of Directors,

Mr. Ahmad Bin Eisa Alserkal
Chairman of Board of Directors

Dubai Refreshment (P.J.S.C.)

Reports and financial statements for the year ended 31 December 2019

Dubai Refreshment (P.J.S.C.)

Contents

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Dubai Refreshment (P.J.S.C.)
Dubai
United Arab Emirates

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Dubai Refreshment (P.J.S.C.)** (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Emphasis of Matter

We draw attention to note 25 to the financial statements which sets out the status of ongoing negotiations, arbitration and litigation proceedings relating to penalty on excise duty filed by the Company.

Our opinion is not modified in respect of this matter.

Other matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those statements on 3 March 2019.

Cont'd...

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Independent Auditor's Report to the Board of Directors of
Dubai Refreshment (P.J.S.C.) (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 period, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How was the matter addressed in our audit
1. IFRS 16 *Leases*	
The Company adopted IFRS 16 *Leases* with effect from 1 January 2019, which resulted in changes to the accounting policies. The Company has elected not to restate comparative information in accordance with the transitional provisions contained within IFRS 16. The impact of IFRS 16 is a change in the accounting policy for operating leases. This change in accounting policy results in right-of-use assets and lease liabilities being recognized in the statement of financial position. The incremental borrowing rate ("IBR") method has been applied where the implicit rate in a lease is not readily determinable. The adoption of IFRS 16 has resulted in changes to processes and controls. Because of the number of judgements which have been applied and the estimates made in determining the impact of IFRS 16, this area is considered as a key audit matter. The transitional impact of IFRS 16 has been disclosed in note 2.1 to the financial statements.	We have evaluated the application of IFRS 16 and tested the resulting impact on the statement of financial position and statement of profit or loss and statement of comprehensive income. We assessed the appropriateness of the discount rates applied in determining lease liabilities with input from our internal specialists. We verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts or other supporting information and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment. We determined if the disclosures made in the financial statements pertaining to leases, including disclosures relating to the transition to IFRS 16, were in compliance with IFRSs.

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Independent Auditor's Report to the Board of Directors of Dubai Refreshment (P.J.S.C.) (continued)

Key audit matters (continued)

Key audit matter	**How was the matter addressed in our audit**
2. General IT Controls	
We identified IT systems and controls over Dubai's Refreshment Company's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Company and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of a change to an application or underlying data.	Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

Other information included in the Company's 2019 Annual Report

Other information consists of the information included in the Company's 2019 Annual Report other than the financial statements and our auditors' report thereon. We obtained the report of the Chairman's report prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Company's 2019 Annual Report after the date of our auditors' report. Management is responsible for the other information.

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 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.

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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 IFRSs and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of 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.

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 arc 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 1SAs 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 skepticism 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.

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 or our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

- the Company has maintained proper books of account;

- we have obtained all the information we considered necessary for the purposes of our audit;

- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015;

- the financial information included in the Directors' report is consistent with the books of account of the Company;

- investments in shares and stocks during the year ended 31 December 2019 are disclosed in note 8 to the financial statements;

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Independent Auditor's Report to the Board of Directors of Dubai Refreshment (P.J.S.C.) (continued)

Report on Other Legal and Regulatory Requirements (continued)

- note 19 reflects material related party transactions and the terms under which they were conducted;
- 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 financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would have a material impact on its activities or its financial position; and
- note 24 reflects the social contributions made during the year.

Deloitte & Touche (M.E.)

M. Jallad

Mohammad Jallad
Registration No. 1164
23 February 2020
Dubai
United Arab Emirates

Statement of financial position
as at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**648,033**	668,958
Right-of-use assets	6	**120,107**	-
Intangible assets	7	**15,732**	19,899
Investment securities	8	**81,391**	115,001
Total non-current assets		**865,263**	803,858
Current assets			
Inventories	9	**50,663**	52,866
Trade and other receivables	10	**182,773**	188,071
Contract assets		**6,532**	5,612
Cash and cash equivalents	11	**120,299**	94,810
Total current assets		**360,267**	341,359
Total Assets		**1,225,530**	1,145,217
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**90,000**	90,000
Statutory reserve	13	**45,000**	45,000
General reserve	14	**618,401**	618,401
Fair value reserve	15	**50,308**	83,918
Cash flow hedge reserve		**(414)**	(1,281)
Retained earnings		**82,808**	61,590
Total equity		**886,103**	897,628
Non-current liabilities			
Provision for employees' end of service indemnity	17	**24,344**	23,252
Lease liabilities - non-current portion	21	**110,417**	-
Term loans - non-current portion	22	**10,032**	20,064
Total non-current liabilities		**144,793**	43,316
Current liabilities			
Trade and other payables	20	**148,405**	138,866
Lease liabilities - current portion	21	**13,571**	-
Contract liabilities		**22,291**	20,837
Term loans - current portion	22	**10,367**	44,570
Total current liabilities		**194,634**	204,273
Total Liabilities		**339,427**	247,589
Total Equity and Liabilities		**1,225,530**	1,145,217

....
Mr. Ahmad Bin Eisa Alserkal
Chairman

....
Mr. Abdulla Mohamed Rashed Al Huraiz
Director

The accompanying notes form an integral part of these financial statements.

Statement of profit or loss
for the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Revenue	23	**635,878**	596,009
Cost of sales		**(411,979)**	(404,127)
Gross profit		**223,899**	191,882
Other operating income		**8,730**	8,576
Selling and distribution expenses		**(105,318)**	(100,071)
General and administrative expenses		**(54,230)**	(55,111)
Amortisation of intangible assets	7	**(4,230)**	(7,005)
Operating income		**68,851**	38,271
Finance income		**507**	632
Finance costs		**(1,547)**	(3,357)
Lease interest costs		**(4,542)**	-
Dividend income	19	**5,059**	5,085
Other (expense)/income		**(970)**	1,660
Profit for the year		**67,358**	42,291
Earnings per share in AED	18	**0.70**	0.43

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2019

	2019 **AED'000**	2018 AED'000
Profit for the year	**67,358**	42,291
Other comprehensive income/(loss)		
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of investment securities measured at FVOCI, equity instruments (Note 8)	**(33,610)**	(23,837)
Change in fair value of cash flow hedges	**867**	(2,511)
Total other comprehensive loss	**(32,743)**	(26,348)
Total comprehensive income for the year	**34,615**	15,943

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2018	90,000	45,000	618,401	107,755	1,230	87,489	949,875
Adjustment in initial application of IFRS 15	-	-	-	-	-	4,503	4,503
Adjusted balance as at 1 January 2018	90,000	45,000	618,401	107,755	1,230	91,992	954,378
Profit for the year	-	-	-	-	-	42,291	42,291
Other comprehensive loss	-	-	-	(23,837)	(2,511)	-	(26,348)
Total comprehensive (loss)/income for the year	-	-	-	(23,837)	(2,511)	42,291	15,943
Dividends paid (Note 16)	-	-	-	-	-	(63,000)	(63,000)
Directors' fees (Note 20)	-	-	-	-	-	(3,780)	(3,780)
Transfer from capital work in progress (Note 5)	-	-	-	-	-	(5,913)	(5,913)
At 31 December 2018	90,000	45,000	618,401	83,918	(1,281)	61,590	897,628
Profit for the year	-	-	-	-	-	67,358	67,358
Other comprehensive (loss)/income	-	-	-	(33,610)	867	-	(32,743)
Total comprehensive (loss)/income for the year	-	-	-	(33,610)	867	67,358	34,615
Dividends declared (Note 16)	-	-	-	-	-	(41,940)	(41,940)
Director fees (Note 20)	-	-	-	-	-	(4,200)	(4,200)
At 31 December 2019	**90,000**	**45,000**	**618,401**	**50,308**	**(414)**	**82,808**	**886,103**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Cash flows from operating activities		
Profit for the year	**67,358**	42,291
Adjustments for:		
Depreciation on property, plant and equipment (Note 5)	**45,895**	47,608
Amortisation of intangible assets (Note 7)	**4,230**	7,005
Depreciation on right-of-use assets (Note 6)	**11,441**	-
Finance income	**(507)**	(632)
Finance expense	**1,547**	3,357
Interest and other expense on lease (Note 2.1)	**6,286**	-
(Gain)/loss on sale of assets	**(445)**	53
Dividend income (Note 19)	**(5,059)**	(5,085)
Provision of loss allowance for doubtful debt (Note 10)	**1,600**	-
Provision for employees' end of service benefits (Note 17)	**3,012**	2,991
Operating cash flows before changes in operating assets and liabilities	**135,358**	97,588
Decrease in inventories	**2,203**	17,764
Decrease/(increase) in trade and other receivables	**3,698**	(53,080)
Increase in contract assets	**(921)**	(1,109)
Increase/(decrease) in trade and other payables	**9,986**	(23,695)
Increase in contract liabilities	**1,454**	18,396
Cash generated from operations	**151,778**	55,864
Employees' end of service indemnity paid (Note 17)	**(1,920)**	(1,991)
Net cash generated from operating activities	**149,858**	53,873
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	**(24,990)**	(20,943)
Purchase of intangible assets (Note 7)	**(63)**	(1,197)
Proceeds from disposal of property, plant and equipment	**465**	416
Dividend income, net (Note 19)	**5,059**	5,085
Finance income, net	**507**	632
Net cash used in investing activities	**(19,022)**	(16,007)
Cash flows from financing activities		
Proceeds from term loans	**-**	5,944
Repayment of term loans (Note 22)	**(44,235)**	(44,388)
Director fees paid	**(3,780)**	(3,780)
Dividends paid (Note 16)	**(41,940)**	(63,000)
Finance expense, paid	**(1,547)**	(3,357)
Lease payment (Note 21)	**(13,845)**	-
Net cash used in financing activities	**(105,347)**	(108,581)
Net increase/(decrease) in cash and cash equivalents	**25,489**	(70,715)
Cash and cash equivalents at the beginning of the year	**94,810**	165,525
Cash and cash equivalents at the end of the year	**120,299**	94,810

The accompanying notes form an integral part of these financial statements.

1. Legal status and activities

Dubai Refreshment (P.J.S.C) (the "Company") was incorporated in Dubai in 1959 by a Decree issued by His Highness The Ruler of Dubai. The Company is listed on the Dubai Financial Market ("DFM"). The registered address of the Company is P.O. Box 420, Dubai, United Arab Emirates.

The Company is engaged in bottling and selling Pepsi Cola International products in Dubai, Sharjah and the other Northern Emirates of UAE. The Company also exports Pepsi Cola International products from time to time to foreign countries after obtaining authorisation from Pepsi Cola International. The Company holds 7Up and Aquafina bottling and selling rights for the whole of the UAE.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and amended IFRS Standards that are effective for the current year

In the current year, the Company, for the first time, has adopted IFRS 16 *Leases* (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

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

Impact of the new definition of a lease

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

Impact on Lessee Accounting (continued)

Applying IFRS 16, for all leases (except as noted below), the Company:

a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;

b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the statement of profit or loss.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

IFRS 16 transition disclosures also requires the Company to present the reconciliation.

Operating lease commitments disclosed as of 31 December 2018 was AED 166,947 thousand and after the adjustments lease liability recognised as of 1 January 2019 was AED 131,548 thousand:

	AED'000
Lease liability recognised as at 1 January 2019	**131,548**
Of which are:	
- Current lease liabilities	11,805
- Non-current lease liabilities	119,743
	131,548

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

IFRS 16 ***Leases (continued)***

Policy applicable from 1 January 2019 (continued)

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets - increase by AED 131,548 thousand
- Lease liabilities - increase by AED 131,548 thousand

Based on the approach adopted by the Company on adoption of IFRS 16 *Leases*, it did not result in any impact on retained earnings on 1 January 2019.

The Company adopted IFRS 16 from 1 January 2019, which resulted in additional net charge of AED 3,881 thousand in the statement of profit or loss account for the year ended 31 December 2019.

Below are the adjustments recorded for IFRS 16 in the current period:

	Amounts before adopting IFRS 16 AED'000	Adjustments for IFRS 16 AED'000	Amounts as reported after IFRS 16 adjustment AED'000
Right-of-use assets	-	120,107	120,107
Lease liability	-	(123,988)	(123,988)
Depreciation on right-of-use assets	-	11,441	11,441
Interest expense	-	4,542	4,542
Operating lease expense	-	(13,845)	(13,845)
Other expenses	-	1,743	1,743

	AED'000
Lease liability recognised as at 31 December 2019	**123,988**
Of which are:	
Current lease liabilities	13,571
Non-current lease liabilities	110,417
	123,988

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*	1 January 2019
The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.	
The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.	
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures.	1 January 2019
These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	
IAS 23 *Borrowing costs*	1 January 2019
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	
Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*	1 January 2019
The amendments to IAS 19 *Employee Benefits* clarify the accounting for defined benefit plan amendments, curtailments and settlements.	

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and amended IFRS applied with no material effect on the financial statements (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Definition of Material - Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	1 January 2019

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

2.3 New and amended IFRSs in issue but not yet effective and not early adopted

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform.	1 January 2020

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, may have no material impact on the financial statements of the Company in the period of initial application.

3. Summary of significant accounting policies

Basis of preparation

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

The financial statements have been presented in U.A.E. Dirhams, which is the functional and reporting currency of the Company, rounded to the nearest thousand (AED `000), except when otherwise indicated.

The Company's financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value (before 1 January 2018); and
- financial assets at fair value through other comprehensive income (applicable from 1 January 2018).

3. Summary of significant accounting policies (continued)

Revenue recognition

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

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 120 days upon delivery.

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

Variable consideration

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

Rights of return

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

Volume rebates

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

Dividend income

Dividend income is recognised when the Company's right to receive the dividend payment is established.

3. Summary of significant accounting policies (continued)

Value-added Tax (VAT)

Expenses, and assets are recognized net of the amount of VAT, except:

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives as follows:

Buildings	3 to 30 years
Plant, machinery and equipment	2 to 20 years
Coolers and vending machines	5 to 7 years
Furniture and fixtures	2 years
Freezers	5 years

Land and capital work-in-progress are not depreciated.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the statement of profit or loss as the expense is incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less cost to sell and their value in use.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of profit or loss in the period the asset is derecognised.

Impairment of non-financial assets

At each reporting date the Company reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss.

Borrowing costs

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

During the year ended 31 December 2019, the Company has not capitalised any borrowing costs (2018: Nil).

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those incurred in bringing each product to its present location and condition, as follows:

Raw materials - purchase cost on weighted average basis;
Spares and consumables - purchase cost on weighted average basis;
Finished goods - cost of direct materials plus an appropriate share of production overheads based on normal operating capacity and is determined on weighted average basis.

Net realisable value is based on the estimated selling price less any further costs expected to be incurred on disposal.

Damaged and obsolete inventories are written off.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with f inite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated on a straight line basis over the assets' estimated useful lives as follows:

Franchise and bottling rights	20 years
Lease rights	20 years
Software	5 years

3. Summary of significant accounting policies (continued)

Foreign exchange difference

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except as otherwise stated in the Standards.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Amortised cost and effective interest rate method

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables, contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables, cash and cash equivalents, due from a related party and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

The Company employs statistical models to analyse the data collected and generate estimates of probability of default ("PD") of exposures with the passage of time. This analysis includes the identification for any changes in default rates and changes in key macro-economic factors across various geographies of the Company.

(iii) *Write-off policy*

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

(iv) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3. Summary of significant accounting policies (continued)

Fair value measurement

The Company measures financial instruments, such as derivatives and investment securities at fair value at each reporting date.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature. Characteristics and risks or the assets or liabilities and the level of the fair value hierarchy, as explained above.

3. Summary of significant accounting policies (continued)

Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leases under IFRS 16 applicable from 1 January 2019

The Company as lessee

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. Summary of significant accounting policies (continued)

Leases under IFRS 16 applicable from 1 January 2019 (continued)

The Company as lessee (continued)

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Leases under IAS 17, applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. Critical accounting judgment and key source of estimation uncertainty

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant impact on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). For calculation of IBR, the Company has taken the borrowing rate as on the transition date and the rate is adjusted for Company's specific risk, term risk and underlying asset risk.

Key source of estimation uncertainty

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

Calculation of loss allowance

When measuring ECL the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

5. Property, plant and equipment

	Land AED'000	Buildings AED'000	Plant, machinery and equipment AED'000	Coolers and vending machines AED'000	Furniture and fixture AED'000	Freezer AED'000	Capital work-in progress AED'000	Total AED'000
Cost								
At 1 January 2018	38,041	472,424	335,778	68,948	9,497	784	32,132	957,604
Additions	-	2,281	2,575	4,195	72	353	11,467	20,943
Transfers during the year	-	6,826	23,487	2	-	29	(30,344)	-
Transfer to retained earnings	-	-	-	-	-		(5,913)	(5,913)
Disposals	-	-	(4,090)	(1,969)	(51)	-	-	(6,110)
At 31 December 2018	38,041	481,531	357,750	71,176	9,518	1,166	7,342	966,524
Additions	-	-	2,197	4,391	138	-	18,264	24,990
Transfers during the year	-	524	10,850	-	-	-	(11,374)	-
Disposals	-	(531)	(8,532)	(1,214)	(375)	-	-	(10,652)
At 31 December 2019	**38,041**	**481,524**	**362,265**	**74,353**	**9,281**	**1,166**	**14,232**	**980,862**

Notes to the financial statements
for the year ended 31 December 2019 (continued)

5. Property, plant and equipment (continued)

	Land AED'000	Buildings AED'000	Plant, machinery and equipment AED'000	Coolers and vending machines AED'000	Furniture and fixture AED'000	Freezer AED'000	Capital work-in progress AED'000	Total AED'000
Accumulated depreciation								
At 1 January 2018	-	64,148	131,229	52,711	7,463	48	-	255,599
Charge for the year	-	16,835	22,604	7,233	707	229	-	47,608
Disposals	-	-	(3,631)	(1,959)	(51)	-	-	(5,641)
At 31 December 2018	-	80,983	150,202	57,985	8,119	277	-	297,566
Charge for the year	-	16,718	22,077	6,204	666	230	-	45,895
Disposals	-	(531)	(8,531)	(1,195)	(375)	-	-	(10,632)
At 31 December 2019	-	**97,170**	**163,748**	**62,994**	**8,410**	**507**	-	**332,829**
Carrying value								
At 31 December 2019	**38,041**	**384,354**	**198,517**	**11,359**	**871**	**659**	**14,232**	**648,033**
At 31 December 2018	38,041	400,548	207,548	13,191	1,399	889	7,342	668,958

The factory buildings at A1 Quoz are constructed on land granted by H.H. The Ruler of Dubai. In 2014, the land was converted from granted status to owned status.

Capital work in progress primarily pertains to Dubai Labor accommodation (AED 9 million), warehouse in Fujairah and Sharjah (AED 1 million) and Life water project (AED 1.4 million). Plant and machinery at Dubai Investment Park (DIP) are mortgaged against a term loan (Note 21).

The fully depreciated assets still in use amounting to AED 142,385 thousand (2018: AED 136,330).

5. Property, plant and equipment (continued)

Depreciation charge for the year has been allocated as follows:

	2019 AED'000	2018 AED'000
Cost of sales	**24,878**	24,582
Selling and distribution expenses	**13,516**	14,497
General and administrative expenses	**7,501**	8,529
	45,895	47,608

6. Right-of-use asset

The Company leases several assets including land, motor vehicles and accommodation. The average lease term is 5 years.

	Right-of-use assets			
	Land and building AED'000	**Equipment AED'000**	**Motor vehicles AED'000**	**Total AED'000**
1 January 2019 (upon application of IFRS 16)	91,532	417	39,599	131,548
Depreciation expense	(4,229)	(137)	(7,075)	(11,441)
31 December 2019	**87,303**	**280**	**32,524**	**120,107**

Amounts recognised in profit or loss:

	2019 AED'000
Depreciation expense on right-of-use assets	**11,441**
Interest expense on lease liabilities (Note 21)	**4,542**
	15,983

The total cash outflow for leases amount to AED 13.845 million (2018: AED 21.239 million).

7. Intangible assets

	Franchise and bottling rights AED'000	Lease rights AED'000	Software AED'000	Total AED'000
Cost				
At 1 January 2018	62,391	7,000	22,850	92,241
Additions	-	-	1,197	1,197
At 31 December 2018	62,391	7,000	24,047	93,438
Additions	-	-	63	63
At 31 December 2019	**62,391**	**7,000**	**24,110**	**93,501**
Amortisation				
At 1 January 2018	46,014	1,604	18,916	66,534
Charge for the year	3,120	350	3,535	7,005
At 31 December 2018	49,134	1,954	22,451	73,539
Charge for the year	3,120	350	760	4,230
At 31 December 2019	**52,254**	**2,304**	**23,211**	**77,769**
Net book value				
At 31 December 2019	**10,137**	**4,696**	**899**	**15,732**
At 31 December 2018	13,257	5,046	1,596	19,899

8. Investment securities

	2019 AED'000	2018 AED'000
Balance at 1 January	**115,001**	138,838
Change in market fair value	**(33,610)**	(23,837)
Balance at 31 December	**81,391**	115,001

On adoption of IFRS 9, effective 1 January 2018, the Company has classified the equity investment securities as measured at FVOCI, previously classified as available-for-sale investments, and re-designated the related fair value reserve as at 1 January 2018 accordingly as not to be reclassified to profit and loss in subsequent periods.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

9. Inventories

	2019 AED'000	2018 AED'000
Raw material and consumables	**23,804**	26,154
Finished goods	**22,776**	22,836
Spare parts and supplies	**5,828**	5,761
	52,408	54,751
Less: Provision for slow moving spare parts and supplies	**(1,745)**	(1,885)
	50,663	52,866

Movements in the provision for slow moving spare parts and supplies inventories were as follows:

	2019 AED'000	2018 AED'000
At 1 January	**1,885**	1,714
Provided during the year	**-**	171
Write-off during the year	**(140)**	-
At 31 December	**1,745**	1,885

During the year ended 31 December 2019, the carrying amount of raw material recognised as an expense and included as part of cost of goods sold in the statement of profit or loss amounts to AED 342.7 million (2018: AED 334.5 million),

10. Trade and other receivables

	2019 AED'000	2018 AED'000
Trade receivables	**106,236**	115,978
Less: provision for doubtful debts	**(3,826)**	(2,226)
	102,410	113,752
Prepaid expenses	**11,562**	9,415
Advances to suppliers	**8,840**	6,853
Other receivables*	**59,252**	57,680
Due from a related party [Note 19 (c)]	**709**	371
	182,773	188,071

* In 2018, other receivables includes AED 20.8 million of disputed amounts relating to excise duty deposited with Federal Tax authority (Note 25).

10. Trade and other receivables (continued)

As at 31 December 2019, trade accounts receivable with a nominal value of AED 3.8 million (2018: AED 2.2 million) were impaired. Movements in the allowance for expected credit loss were as follows:

	2019 AED'000	2018 AED'000
At 1 January	2,226	2,672
Write off during the year	-	(446)
Charge for the year	1,600	-
At 31 December	3,826	2,226

As at 31 December, the ageing of unimpaired trade receivables is as follows:

				Past due but not impaired				
	Total AED'000	Past due and impaired	Neither past due nor impaired AED'000	<30 days AED'000	30-60 days AED'000	60-90 days AED'000	90-180 days AED'000	>180 days AED'000
2019	106,236	3,826	77,886	12,190	5,067	3,583	3,684	-
2018	115,978	2,226	80,012	15,293	8,266	4,723	4,276	1,182

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable given the nature of the business. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9:

	Collectively assessed AED	Individually assessed AED	Total AED
Balance as at 1 January 2018	2,672	-	2,672
Net re-measurement of loss allowance	-	-	-
Amount written off	(446)	-	(446)
Balance as at 1 January 2019	2,226	-	2,226
Transfer	(2,226)	2,226	-
Net re-measurement of loss allowance	1,130	470	1,600
Balance as at 31 December 2019	**1,130**	**2,696**	**3,826**

11. Cash and cash equivalents

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

	2019 AED'000	2018 AED'000
Cash at bank and on hand	**70,084**	64,691
Bank deposits	**50,215**	30,119
	120,299	94,810

Bank deposits are short-term in nature having a maturity of less than three months and carries interest at rates ranging from 1.9% p.a. to 3.75% p.a. (2018: 1.5% p.a. to 3.75% p.a.).

12. Share capital

	2019 AED'000	2018 AED'000
Authorized issued and fully paid up:		
90 million shares of AED 1 each	**90,000**	90,000

13. Statutory reserve

In accordance with Article 239 of Commercial Companies Law No. 2 of 2015 and the Company's articles of association, 10% of the anneal profit of the Company is required to be transferred to a statutory reserve until the reserve equals 50% of the share capital. No transfer was made to the statutory reserve in 2019 as the reserve has already reached 50% of the share capital. This reserve is not available for distribution except as stipulated by the law.

14. General reserve

In accordance with Article 240 of the UAE Commercial Companies Law No. 2 of 2015 and the Company's articles of association, 10% of the Company's net profit may be transferred to a general reserve to be used only for the purposes stated in the Company's article of association.

In accordance with Clause 70 of the Company's article of association, 10% of the net profit for each year should be transferred to this reserve and such transfers may cease when the reserve equals 5% of the paid up share capital of the Company.

During the Board of Directors' meeting held on 23 February 2020, the Directors have approved not to transfer any amount from retained earnings to general reserve.

15. Fair value reserve

On adoption of IFRS 9, effective 1 January 2018, the Company has classified the equity investment securities as measured at FVOCI, previously classified as available-for-sale investments, and re-designated the related fair value reserve as at I January 2018 accordingly as not to be reclassified to profit and loss in subsequent periods.

16. Dividends

During the Board of Directors' meeting held on 23 February 2020, the Directors proposed a cash dividend of AED 0.70 per share totaling to AED 63 million relating to 2019 (2018: AED 0.467 per share totaling to AED 42 million). The dividend is subject to the approval of the shareholder in the Annual General Meeting.

During the year, the Company paid dividend of AED 41.9 million relating to 2018 (2018: paid dividend of AED 63 million relating to 2017).

17. Provision for employees' end of service indemnity

	2019 **AED'000**	2018 AED'000
Balance at the beginning of the year	**23,252**	22,252
Charged during the year	**3,012**	2,991
Payments during the year	**(1,920)**	(1,991)
Balance at the end of the year	**24,344**	23,252

18. Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Company, net of directors' fees, amounting to AED 63.16 million (2018: AED 38.51 million) by the weighted average number of shares outstanding during the year of 90 million shares (2018: 90 million shares).

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

19. Related party transactions and balances

Related parties represent shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management, which are substantially the same terms as those prevailing at the same time for comparable transactions with un-related parties.

The Company enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and control and key management personnel.

The management decides on the terms and conditions of the transactions and of the services received/rendered from/to related parties, as well as on any other charges, which are substantially the same terms as those prevailing at the same time for comparable transactions with un-related parties.

a. Significant transactions with related parties included in the statement of profit or loss are as follows:

	2019 **AED'000**	2018 AED'000
Sales to a related party	**2,639**	3,848
Purchase from a related party	**732**	1,037
Dividend income	**5,059**	5,085

19. Related party transactions and balances (continued)

b. Compensation of key management personnel

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

	2019 AED'000	2018 AED'000
Short-term benefits	**13,071**	13,219
Employees' end of service benefits	**457**	549
Director's sitting fee	**150**	150
	13,678	13,918

c. Significant balances with related parties included in the statement of financial position:

	2019 AED'000	2018 AED'000
Due from a related party		
Other related party (included in trade and other receivables)		
Oman Refreshments Company Limited	**709**	371
Due to a related party		
Other related party (included in trade and other payables)		
Oman Refreshments Company Limited	**472**	117

Amounts due from and due to a related party is not offset as management has assessed that these financial assets and liabilities do not meet the offset criteria described in *IAS 32 – Financial Instruments: Presentation.* Amount due from related parties are interest free and payable on demand.

20. Trade and other payables

	2019 AED'000	2018 AED'000
Trade payable	**50,910**	33,599
Accrued expenses	**39,149**	51,481
Accrual for staff costs	**10,748**	9,756
Advances from customers	**3,457**	3,177
Deferred income	**12,123**	12,441
Due to a related party	**472**	117
Other payables	**31,132**	27,014
Negative fair value of derivatives (Note 28)	**414**	1,281
	148,405	138,866

Other payables include Board of Directors' fees of AED 4.2 million (2018: AED 3.8 million) payable to the directors of the Company after obtaining the shareholders' approval in the Annual General Meeting. It also includes an excise duty payable amounting to AED 24.7 million (2018: AED 21.4 million).

Notes to the financial statements
for the year ended 31 December 2019 (continued)

21. Lease liabilities

	2019 AED'000
Balance as at 1 January 2019	**131,548**
Accretion of interest	**4,542**
Other expenses	**1,743**
Payments	**(13,845)**
Balance as at 31 December 2019	**123,988**
Current	**13,571**
Non-current	**110,417**
	123,988

The maturity analysis of lease liabilities is as follows:

	2019 AED'000
Maturity analysis	
Not later than 1 year	**13,571**
Later than 1 year and not later than 5 years	**45,478**
Later than 5 years	**64,939**
	123,988

22. Term loans

	Current portion AED'000	Non-current portion AED'000	Total AED'000
Loan 1 (a)	-	-	-
Loan 2 (b)	**7,230**	**6,996**	**14,226**
Loan 3 (b)	**3,137**	**3,036**	**6,173**
Balance at 31 December 2019	**10,367**	**10,032**	**20,399**
Loan 1 (a)	34,000	-	34,000
Loan 2 (b)	7,371	13,991	21,362
Loan 3 (b)	3,199	6,073	9,272
Balance at 31 December 2018	44,570	20,064	64,634

Notes to the financial statements
for the year ended 31 December 2019 (continued)

22. Term loans (continued)

(a) The Company obtained a term loan from a local bank to finance the construction of an office and plant facility (Greenfield Project) at DIP. As approved by the Board of Directors of the Company, this loan was capped at AED 170 million with 5 years repayment period. The repayment started from January 2015 and ended in July 2019. The loan carries interest at 3 months LIBOR plus margin as per market. The loan is secured by assignment of leasehold rights over the plot and chattel mortgage and assignment of insurance benefits over plant & machinery. The loan was fully repaid during the period in July 2019.

(b) The Company obtained two term loans denominated in US Dollar to finance the acquisition of new plant and machinery. The loans are repayable in 14 semi-annual instalments commenced from 15 January 2015 and carry interests at 6 months LIBOR plus margin as per market. In AED terms, the outstanding amount as of 31 December 2019 is AED 20.4 million (31 December 2018: AED 30.6 million).

Reconciliation of liabilities arising from financing activities is as follows:

	1 January 2019 AED'000	**Financing cash flows AED'000**	**31 December 2019 AED'000**
Term loans	**64,634**	**(44,235)**	**20,399**

23. Revenue

	2019 AED'000	2018 AED'000
Local		
Long term contracts	**358,393**	321,487
Transaction based contracts	**177,496**	195,023
	535,888	516,510
Export		
Long term contracts	**32,627**	26,747
Transaction based contracts	**67,363**	52,752
	99,990	79,499
Total	**635,878**	596,009

24. Profit for the year

The profit for the year is stated after charging:

	2019 AED'000	2018 AED'000
Staff costs	**90,465**	89,245
Rental expenses - operating lease	**6,337**	21,239
Depreciation of property, plant and equipment (Note 5)	**45,895**	47,608
Depreciation of right of use asset (Note 6)	**11,441**	-
(Gain)/loss on disposal of property, plant and equipment	**(445)**	53

Amount included in cost of sales:

	2019 AED'000	2018 AED'000
Staff costs	**18,774**	18,198
Rental - operating lease	**512**	3,743
Depreciation expense (Note 5)	**28,323**	24,582

During the year ended 31 December 2019, social contributions made by the Company amounted to AED 88 thousand (2018: AED 61 thousand).

25. Contingencies and capital commitments

	2019 AED'000	2018 AED'000
Bank guarantees	**12,285**	12,577
Capital commitments - contracted	**-**	299

During the year ended 31 December 2018, the Company filed objections with regards to the excise duty levied by the Federal Tax Authority's ("Authority") on the inventory in hand of carbonated drinks as on 1 October 2017 being the effective date of the excise duty. The objections were filed with Tax Disputes Settlement Committee ("Committee") relating to excise duty for penalty amount of about AED 20.8 million recorded under "Trade and other receivables". In April 2019, the Committee awarded the decision to reduce the penalty to AED 8.8 million. The Company and FTA both have filed appeals against the decision before the Federal courts of UAE in accordance with the applicable laws and regulations. Legal proceedings are still on-going and based on the latest hearing it has been decided to refer the matter to the court appointed experts. As such the proceedings have been adjourned until the next hearing and no decision has been made until the date of signing of these financial statements.

26. Segment reporting

The Company operates in a single reporting segment of canning, bottling, distribution and trading of soft drinks and related beverages products. All the relevant information relating to this reporting/operating segment is disclosed in the statement of financial position, statement of profit or loss and notes to the financial statements.

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

Information about geographical segments

During the year ended 31 December 2019, revenue from customers located in the Company's country of domicile (UAE) is AED 536 million (2018: AED 517 million) and revenue from customers outside UAE (foreign customers) is AED 100 million (2018: AED 79 million).

Major customer

During the year ended 31 December 2019, there was one customer of the Company with revenue greater than 10% of the total revenue of the Company (2018: 10%).

27. Financial risk management

The Company's principal financial liabilities comprise borrowing, accounts payables and other liabilities. The main purpose of these financial liabilities is to manage Company's cash flows. The Company has various financial assets such as accounts and other receivables, cash and cash equivalents, which arise directly from operations.

The main risk arising from Company's financial instruments are liquidity risk, market risk, credit risk, interest rate risk.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include term loans, bank deposits, investment securities and derivative financial instruments.

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 rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and term loans).

The following table demonstrates the sensitivity of the statement of profit or loss to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the Company's result for one year, based on the floating rate financial assets and financial liabilities held at 31 December.

There is no impact on the Company's equity.

27. Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

	Increase/ decrease in basis points	Effect on profit for the year AED'000
2019		
AED	**+50**	**(102)**
AED	**-50**	**102**
2018		
AED	+50	(323)
AED	-50	323

Foreign currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates, The Company had the following significant net exposures denominated in foreign currencies in the form of bank balances and term loans.

	2019 AED'000 Equivalent	2018 AED'000 Equivalent
Net assets:		
Euro	**41**	41

The below analysis calculates the effect of a reasonably possible movement of the AED currency rate against the above mentioned currency, with all other variables held constant, on the income (due to the fair value of currency sensitive monetary assets and liabilities).

	Increase/ decrease in exchange rate to the AED	Effect on profit for the year increase (decrease) AED'000	Effect on other comprehensive income for the year increase/ (decrease) AED'000
2019	**+5%**	**2**	**-**
	-5%	**(2)**	**-**
2018	+5%	2	-
	-5%	(2)	-

27. Financial risk management (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks. The Company's listed equity security is susceptible to market price risk arising from uncertainties about future values of the investment security. The effect on equity (fair value reserve) as a result of a change in the fair value of equity instrument quoted on Muscat Securities Market Oman and held as available-for-sale at 31 December 2019 and 31 December 2018, due to reasonably possible changes in the prices of these quoted shares held by the Company, with all other variables held constant, is as follows:

	2019		2018	
	Increase/ decrease in market prices %	**Effect on equity (fair value reserve) AED'000**	Increase/ decrease in market prices %	Effect on equity (fair value reserve) AED'000
Market index - Muscat Securities Market (Oman)	**+10%**	**8,139**	+10%	11,500
Impact of change in market prices	**-10%**	**(8,139)**	-10%	(11,500)

Credit risk

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 Company 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 Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks. The Company also manages the risk through dealings with large diversified base of customers as well as local and foreign banks.

Credit risk is limited to the carrying values of financial assets in the statement of financial position.

With respect to credit risk arising from other financial assets of the Company, including bank balances, trade and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2019 AED'000	2018 AED'000
Bank balances and deposits	**120,299**	94,810
Trade receivables	**102,410**	113,752
Due from a related party	**709**	371
Other receivables	**59,252**	57,680
	282,670	266,613

27. Financial risk management (continued)

Credit risk (continued)

Bank balances

The Company limits its credit risk with regard to bank balances by dealing only with reputable banks. The credit risk is limited to the carrying values of the financial assets.

Trade receivables and contract assets

Customer credit risk is managed subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established lor all customers based on internal criteria. Outstanding trade receivables and contract assets are regularly monitored. The requirement for an impairment is analysed at each reporting date on an individual basis for major clients.

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., geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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 provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. 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 Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries.

Liquidity risk

The Company limits its liquidity risk by ensuring that adequate internally generated funds and bank facilities are available. The Company's terms of sales require amounts to be paid within 30 to 60 days from the date of sale, Trade payables are normally settled within 30 to 90 days from the date of purchase.

The table below summarises the maturities of the Company's discounted and undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

	Less than 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2019				
Trade and other payables	**104,915**	**-**	**-**	**104,915**
Term loans	**5,351**	**5,016**	**10,032**	**20,399**
Total	**110,266**	**5,016**	**10,032**	**125,314**

Contractual maturities related to lease liabilities disclosed in Note 21.

27. Financial risk management (continued)

Liquidity risk (continued)

	Less than 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2018				
Trade and other payables	115,649	-	-	115,649
Term loans	22,694	22,900	21,088	66,682
Total	138,343	22,900	21,088	182,331

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018. Capital comprises share capital, reserves and retained earnings and is measured at AED 886 million as at 31 December 2019 (2018: AED 898 million).

28. Fair value of derivatives

Cash flow hedges

The Company also uses forward commodity contracts to manage some of its financing transaction exposures, highly probable transactions and commitment. The hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transaction is accounted for as a cash flow hedge.

The cash flow hedges were assessed to be effective and as at 31 December 2019, a net unrealised gain of AED 0.8 million (2018: net unrealised loss of AED 2.5 million) was included in other comprehensive income in respect of these contracts.

The table below shows the positive and negative fair values of derivative financial instruments including cash flow hedges, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes In the value of derivatives are measured, the notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

28. Fair value of derivatives (continued)

Cash flow hedges (continued)

	Negative fair value AED'000	Notional amount AED'000	Within 1 year AED'000
Derivatives			
31 December 2019			
Designated as cash flow hedge	**414**	**9,465**	**9,465**
31 December 2018			
Designated as cash flow hedge	1,281	17,060	17,060

The fair value of derivatives is presented in the statement of financial position as.

	2019 AED'000	2018 AED'000
Negative fair value of derivatives - current liabilities (Note 20)	**414**	1,281

29. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand and bank balances, receivables, contract assets, derivatives and investment securities. Financial liabilities consist of bank borrowings, payables, contract liabilities and derivatives.

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

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not base on observable market data.

29. Fair values of financial instruments (continued)

As at reporting date, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	Total AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
2019				
Investment securities				
Quoted equity shares consumer products sector (Note 8)	**81,391**	**81,391**	**-**	**-**
Negative fair value of derivatives - held as cash flow hedge (Note 20)	**414**	**-**	**414**	**-**
2018				
Investment securities				
Quoted equity shares consumer products sector (Note 8)	115,001	115,001	-	-
Negative fair value of derivatives - held as cash flow hedge (Note 20)	1,281	-	1,281	-

30. Non-cash transactions

The following non-cash transactions have been excluded from the statement of cash flows:

	2019 AED'000	2018 AED'000
Transfer of Mosque from property, plant and equipment (Note 5)	**-**	5,913

31. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 23 February 2020.