R.A.K. Ceramics P.J.S.C.
and its subsidiaries

Consolidated financial statements
31 December 2019

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated financial statements
31 December 2019

Contents	***Page***

RAK
CERAMICS

Report of the Board of Directors

On financial performance during the year 2019
11 February 2020

Dear Members,

It is our pleasure to present the business & operations report for the year 2019, along with the Consolidated Financial Statements for the Group as on 31 December 2019.

RAK Ceramics has reported total revenues of AED 2.57 billion, lowered by 5.6% compared to AED 2.73 billion due to challenging regional market conditions and increased competition in export markets. On constant currency basis, total revenue decreased by 2.8% year on year.

The gross profit margin increased by 120bps year on year to 33.2% driven by an increase in tiles gross profit margins by 240bps to 29.6%. EBITDA increased by 8.9% year on year to AED 482.8 million with a margin increase of 260bps year on year to 18.8%.

Saudi Arabia has demonstrated strong performance in revenue growth. Total revenue increasing by 9.1% year on year to AED 271.9 million.

- **Performance in line with market expectations**

RAK Ceramics reported a net profit of AED 205.2 million and an increase in total gross profit margins of 33.2%, increased by 120bps year or year as a result of continued focus on product differentiation, product optimisation and improved operational efficiencies, by leveraging automation and process enhancements.

Tableware and Sanitary ware businesses continued to show strong growth with revenues increasing by 2.2% and 4.0% year on year respectively. Increased revenue in the tableware segment supported by strong growth in USA, UAE and Asian markets, whereas the sanitary ware business grew in all markets, except UAE and Bangladesh.

Saudi Arabia has been a strong market for us predominantly in tiles, where we witnessed a substantial growth in Q4-2019, which reflected positively on the year on year growth. Total revenue increased by 9.1% year on year to AED 271.9 million supported by growth in wholesale business. The projects segment has been stable during the year and tiles revenue increased by 6.9% to AED 248.7 million and sanitary ware revenue increased by 41.6% to AED 23.2 million.

The Group’s Indian operations are being streamlined by ramping up production of slabs, increase in exports and reduction in production costs. We continues to invest in strengthening the brand and market positioning by opening flagship showrooms in key cities across India.

Financial highlights for the year 2019

Particulars	Unit	Year 2019	Year 2018	Change
Total Revenue	AED Mio	2,574.5	2,728.5	-5.6%
Gross Profit	AED Mio	855.5	873.2	-2.0%
GP Margin	%	33.2%	32.0%	120bps
EBITDA	AED Mio	482.8	443.2	8.9%
EBITDA Margin	%	18.8%	16.2%	260bps
Reported Net Income	AED Mio	205.2	225.1	-8.8%
Reported Net Income margin	%	8.0%	8.2%	-20bps
Net income before one-off, provisions & strategic gains	AED Mio	195.1	225.5	-13.5%
Net income margin before one-off, provisions & strategic gains	%	7.6%	8.3%	-70bps
Reported Profit after NCI (Minority)	AED Mio	164.4	182.6	-10.0%
Reported Earnings per share	AED	0.17	0.19	-
		31 December 2019	**31 December 2018**	**Change**
Total Assets	AED Mio	5,486.8	5,497.0	-0.2%
Share Capital	AED Mio	946.4	901.3	5%
Shareholder's Equity	AED Mio	2,426.3	2,501.4	-3.0%
Net Debt	AED Mio	1,374.3	1,428.9	-3.8%
Net Debt / EBITDA	Times	2.85	3.23	-0.4
Cost of Debt	%	4.20%	3.98%	22bps

Corporate Social Responsibility, Exhibitions, Awards & Social Activities during the year 2019

Awards

- BKU Awards – for Best Tile Brand ;
- World Leaders in Ceramics Production 2019 from Global Excellence awards of Acquisition int'l Magazine ;
- Platinum Sponsor of the year's IAP Awards organized by the Institute of Architects, Pakistan ; and
- 2019 CEO of the Year, UAE - CEO Monthly Magazine for United Arab Emirates.

Corporate Social Responsibility

- Participation in Terry Fox Run, RAK;
- Participation in Earth Hour ;
- Participation in 'Beach Clean Up' campaign;
- The 3rdArab Ministerial Forum on Housing and Urban Development in Al Habtoor Dubai. With the growing challenges in different sectors of the society in the Arab world, the forum focused on finding innovative sustainable solutions in urban development ; and
- Total Quality Management & Lean Manufacturing training programmes were imparted to the Quality, EHS, Supply Chain and Manufacturing teams

Visits to corporate facilities

- The Ambassadors of Lebanon, Ethiopia, Mauritania to UAE and other delegates visited RAK Ceramics' Head Quarters, factories & showroom.

Exhibitions

- Participation in ISH 2019 exhibition in Germany;
- Cersaie 2019 exhibition at Bologna, Italy, we participated in the "Design Goloso Tour", an event that involved Italian and journalists as well as bloggers and influencers from over the world, specializing in furniture and interior design.

Future Outlook

Looking ahead, our priorities for 2020 are to maintain our market share in United Arab Emirates, Bangladesh and India, further to grow our market in Saudi Arabia and strengthen the overall performance of distribution entities in Europe. We will continue to invest our branding and product differentiation, and we plan to increase our retail footprint by opening new showrooms in core markets.

Financial Reporting

Consolidated Financial Statements of the Group, prepared in accordance with International Financial Reporting Standards (IFRSs), fairly present its financial position, the result of its operations, cash flows and changes in equity.

Appropriate accounting policies have been consistently applied and accounting estimates are based on reasonable and prudent judgments. There are no matters which call into question the company's ability to continue as a going concern.

Vote of Thanks

The Board would like to take this opportunity to thank Government bodies, the shareholders, investors, bankers & employees for their continuous commitment, co-operation, confidence & continuous support in achieving the company's objectives.

11 FEB 2020

Chairman	**Director**	**Chief Executive Officer**

Deloitte.

Deloitte & Touche (M.E.)
UAB Tower - Level 13
Al Buhairah Corniche
P.O. Box 5470
Sharjah
United Arab Emirates

Tel: +971 (0) 6 517 9500
Fax:+971 (0) 6 517 9501
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders of
R.A.K. Ceramics P.J.S.C.
Ras Al Khaimah
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of R.A.K. Ceramics P.J.S.C. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of goodwill	
As at 31 December 2019, the carrying value of goodwill amounted to AED 120.38 million which is 2.20% of total assets. In accordance with International Accounting Standard (IAS) 36 Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. An impairment is recognised in profit or loss when the recoverable amount is less than the net carrying amount in accordance with IAS 36. The determination of the recoverable amount is mainly based on the identification of the relevant cash generating unit ("CGU") and the related discounted future cash flows. We considered the impairment of goodwill to be a key audit matter, given the significant judgements applied and estimates made when determining the recoverable amount. Refer to Note 15 for information relating to goodwill.	Our audit procedures included but were not limited to, the following: • We obtained an understanding of the process implemented by the Group to identify the CGU and the related discounted cash flows; • We assessed the design and implementation of controls over the determination of the recoverable amount of goodwill; • We assessed the principles and methods used for determining the recoverable amounts of the CGU to which the goodwill was allocated and assessing the methods used against the requirements of IAS 36; • We reconciled the net carrying amount of the goodwill allocated to the CGU to the Group's accounting records; • We utilised our internal valuation specialist to assess the valuation methodology and assumptions used, including the discount rate applied by benchmarking it against independent data; • We enquired of management about the assumptions on which budget estimates underlying the cash flows used in the valuation models are based and further assessed the assumptions based on the results of our enquiries. For this purpose, we also compared the estimates of cash flow projections of previous periods with actual corresponding results, to assess the pertinence and reliability of the cash flow forecasting process; • We performed a sensitivity analysis of the discounted cash flow forecasts; • We reperformed the arithmetical accuracy of the cash flow forecasts prepared by the Group; and • We assessed the disclosures in the consolidated financial statements relating to goodwill against the requirements of IFRSs.

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of investment properties	
Investment properties represented 21.5% of total assets as at 31 December 2019. Investment properties are measured in accordance with the cost model described in International Accounting Standard 40 Investment Properties. Management obtained valuations from independent external valuers for the purposes of identifying impairment indicators and compiling fair value disclosures. The valuation of investment properties, as detailed in Note 18, requires significant judgement and estimates be made by both management and the independent external valuers. Consequently, we considered this to be a key audit matter.	We obtained an understanding of management's process of valuing investment properties. Further, we performed the following: • We obtained an understanding of the process of determining the valuation of the investment properties; • We assessed the controls over the determination of the fair value of investment property to determine if they had been appropriately designed and implemented; • We assessed the competence, skills, qualifications and objectivity of the independent external valuer; • We reviewed the scope of the engagement between the external valuer and the Group to determine if this was sufficient for audit purposes; • We verified the accuracy, completeness and relevance of the input data used for deriving fair values; • We utilised our internal valuation experts on a sample basis to evaluate the methodology used and the appropriateness of key assumptions used in the investment property valuations; • We reperformed the mathematical accuracy of the valuations on a sample basis; • We agreed the results of the valuations to the amounts disclosed in the consolidated financial statements; and • We assessed the adequacy of disclosures included in the consolidated financial statements against the requirements of IFRSs.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those statements on 12 February 2019.

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Directors' report prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF R.A.K. CERAMICS P.J.S.C. (continued)

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in Note 31 to consolidated financial statements, the Group has not purchased shares during the year ended 31 December 2019;

vi) Note 21 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2019; and

viii) Note 7 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2019.

Deloitte & Touche (M.E.)

Signed by:
Mohammad Khamees Al Tah
Registration No. 717
11 February 2020
Sharjah, United Arab Emirates

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of profit or loss

for the year ended 31 December 2019

	Notes	**2019 AED'000**	2018 AED'000
Revenue	*5*	**2,574,533**	2,728,512
Cost of sales	*6*	**(1,718,998)**	(1,855,326)
Gross profit		**855,535**	873,186
Administrative and general expenses	*7*	**(210,680)**	(232,205)
Impairment reversal/(loss) on trade receivables and due from related parties	*7(i)*	**10,013**	(19,339)
Selling and distribution expenses	*8*	**(411,622)**	(403,679)
Other income	*9*	**56,163**	91,757
Operating profit		**299,409**	309,720
Finance costs	*10*	**(90,069)**	(91,153)
Finance income	*10*	**8,878**	9,410
Share of profit in equity accounted investees	*11*	**13,630**	9,549
Profit before tax		**231,848**	237,526
Tax expense	*12*	**(26,692)**	(12,432)
Profit for the year		**205,156**	225,094
Profit attributable to:			
Owners of the Company		**164,378**	182,620
Non-controlling interests		**40,778**	42,474
Profit for the year		**205,156**	225,094
Earnings per share			
- basic and diluted (AED)	*13*	**0.17**	0.19

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2019

	2019	2018
	AED'000	AED'000
Profit for the year	**205,156**	225,094
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss		
Foreign exchange difference on translation of foreign operations	**(81,180)**	(33,831)
Cash flow hedges – effective portion of changes in fair value (loss)/gain on hedging instruments	**(16,148)**	(5,648)
Total comprehensive income for the year	**107,828**	185,615
Total comprehensive income attributable to:		
Owners of the Company	**69,690**	144,824
Non-controlling interests	**38,138**	40,791
Total comprehensive income for the year	**107,828**	185,615

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of financial position

as at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Assets			
Non-current assets			
Property, plant and equipment	*14*	**1,153,992**	1,181,301
Goodwill	*15*	**120,378**	120,144
Right-of-use assets	*16*	**83,264**	-
Intangible assets	*17*	**25,833**	27,243
Investment properties	*18*	**1,176,393**	1,181,191
Investments in equity accounted investees	*11*	**40,042**	42,606
Long-term receivables	*19(i)*	**65,724**	33,352
Deferred tax assets	*12*	**3,966**	7,613
Total non-current assets		**2,669,592**	2,593,450
Current assets			
Inventories	*20*	**1,213,477**	1,249,505
Trade and other receivables	*19*	**1,178,973**	1,211,051
Due from related parties	*21*	**37,363**	112,630
Derivative financial assets	*22*	**4,319**	6,295
Bank balances and cash	*23*	**383,049**	324,109
Total current assets		**2,817,181**	2,903,590
Total assets		**5,486,773**	5,497,040
Equity and liabilities			
Capital and reserves			
Share capital	*24*	**946,384**	901,318
Reserves	*24*	**1,479,933**	1,600,094
Equity attributable to owners of the Company		**2,426,317**	2,501,412
Non-controlling interests	*25*	**238,255**	212,697
Total equity		**2,664,572**	2,714,109
Non-current liabilities			
Islamic bank financing	*26a(ii)*	**497,498**	354,615
Interest bearing bank financing	*26b(ii)*	**486,071**	711,387
Provision for employees' end of service benefits	*29*	**83,865**	85,464
Lease liabilities	*27*	**68,691**	-
Deferred tax liabilities	*12*	**8,413**	8,829
Total non-current liabilities		**1,144,538**	1,160,295
Current liabilities			
Islamic bank financing	*26a(i)*	**287,032**	325,020
Interest bearing bank financing	*26b(i)*	**486,702**	361,980
Trade and other payables	*28*	**656,199**	720,925
Due to related parties	*21*	**38,340**	49,514
Derivative financial liabilities	*22*	**15,633**	4,127
Lease liabilities	*27*	**23,075**	-
Provision for taxation	*12*	**170,682**	161,070
Total current liabilities		**1,677,663**	1,622,636
Total liabilities		**2,822,201**	2,782,931
Total equity and liabilities		**5,486,773**	5,497,040

11 FEB 2020

Chairman — Director — Chief Executive Officer

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Operating activities		
Profit for the year before tax	**231,848**	237,526
Adjustments for:		
Share of profit in equity accounted investees	**(13,630)**	(9,549)
Interest expense	**50,348**	48,993
Profit expense on Islamic financing	**24,784**	24,372
Interest income	**(6,022)**	(4,856)
Profit on wakala deposits	**(190)**	(372)
Interest expense on lease liabilities	**5,913**	-
Net change in derivative financial instruments	**(2,666)**	(4,182)
Gain on disposal of property, plant and equipment	**(1,379)**	(19,163)
Gain on disposal of investment properties	**-**	(154)
Gain on disposal of assets held for sale	**-**	(3,838)
Depreciation on property, plant and equipment	**135,095**	139,445
Depreciation on investment properties	**10,616**	10,389
Amortisation of intangible assets	**6,365**	6,459
Depreciation of right-of-use assets	**23,801**	-
Capital work in progress written off	**1,647**	1,528
Provision for employees' end-of-service benefits	**17,528**	16,235
Allowance for slow moving and obsolete inventories	**9,781**	5,538
Write-down of net realizable value of finished goods	**19,819**	16,980
Allowance for impairment loss on trade receivables	**12,991**	19,201
(Reversal)/allowance for impairment loss on due from related parties	**(23,004)**	138
	503,645	484,690
Changes in:		
- inventories	**6,428**	(34,291)
- trade and other receivables (including long-term portion)	**(5,911)**	43,759
- due from related parties (including long-term portion)	**100,921**	41,430
- trade and other payables	**(64,726)**	(15,786)
- due to related parties	**(11,174)**	5,239
Income tax paid	**(21,223)**	(20,709)
Employees' end-of-service benefits paid	**(17,769)**	(18,139)
Currency translation adjustments	**(24,067)**	(2,068)
Net cash generated from operating activities	**466,124**	484,125

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Investing activities		
Additions to property, plant and equipment	**(172,714)**	(237,948)
Proceeds from disposal of property, plant and equipment	**2,882**	40,765
Additions to intangible assets	**(3,663)**	(5,459)
Additions to investment property	**(271)**	(1,479)
Proceeds from disposal of investment properties	**-**	1,501
Proceeds from disposal of assets held for sale	**-**	6,813
Dividend received from equity accounted investees	**13,544**	7,557
Interest received	**6,022**	4,856
Profit received on Wakala deposits	**190**	372
Change in bank deposits with maturity more than three months	**(139,473)**	-
Consideration paid for acquisition of subsidiaries	**-**	(15,682)
Proceeds from sale of shares in a subsidiary	**-**	1,960
Cash acquired as part of acquisitions	**-**	1,145
Net cash used in investing activities	**(293,483)**	(195,599)
Financing activities		
Bank financing availed	**9,466**	109,556
Bank financing repaid	**(228,207)**	(265,603)
Islamic bank financing availed	**387,516**	91,837
Islamic bank financing repaid	**(221,021)**	(111,873)
Repayment of principal and interest on lease liability	**(31,957)**	-
Net movement in short-term bank financing	**51,141**	11,388
Net movement in short-term Islamic bank financing	**(61,600)**	(6,977)
Interest paid	**(50,348)**	(48,993)
Profit paid on Islamic bank financing	**(24,784)**	(24,372)
Remuneration paid to Board of Directors	**(3,700)**	(3,700)
Dividend paid	**(135,198)**	(214,600)
Dividend paid to non-controlling interests	**(13,808)**	(28,342)
Funds invested by non-controlling interests	**2,320**	11,165
Net cash used in financing activities	**(320,180)**	(480,514)
Net decrease in cash and cash equivalents	**(147,539)**	(191,988)
Cash and cash equivalents at the beginning of the year	**319,834**	511,822
Net cash and cash equivalents at the end of the year	**172,295**	319,834
Represented by:		
Cash and cash equivalents (refer note 23)	**243,576**	324,109
Bank overdraft	**(71,281)**	(4,275)
	172,295	319,834

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Attributable to owners of the Company												
		Reserves											
	Share capital AED'000	**Share premium AED'000**	**Legal reserve AED'000**	**Translation reserve AED'000**	**Hyper-inflation reserve AED'000**	**Hedging reserve AED'000**	**General reserve AED'000**	**Capital reserve AED'000**	**Retained earnings AED'000**	**Total reserves AED'000**	**Total AED'000**	**Non-controlling interests (NCI) AED'000**	**Total equity AED'000**
Balance as at 31 December 2018	**901,318**	**221,667**	**553,001**	**(113,688)**	**(112,009)**	**1,804**	**82,805**	**63,419**	**903,095**	**1,600,094**	**2,501,412**	**212,697**	**2,714,109**
Adjustment on application of IFRS 16 (Refer note 2.1(d))	-	-	-	-	-	-	-	-	(5,887)	(5,887)	(5,887)	(1,092)	(6,979)
Balance at 1 January 2019 (restated)	**901,318**	**221,667**	**553,001**	**(113,688)**	**(112,009)**	**1,804**	**82,805**	**63,419**	**897,208**	**1,594,207**	**2,495,525**	**211,605**	**2,707,130**
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	164,378	164,378	164,378	40,778	205,156
Other comprehensive income													
Foreign currency translation differences	-	-	-	(6,701)	(71,839)	-	-	-	-	(78,540)	(78,540)	(2,640)	(81,180)
Changes in cash flow hedges	-	-	-	-	-	(16,148)	-	-	-	(16,148)	(16,148)	-	(16,148)
Total comprehensive income for the year	**-**	**-**	**-**	**(6,701)**	**(71,839)**	**(16,148)**	**-**	**-**	**164,378**	**69,690**	**69,690**	**38,138**	**107,828**
Other equity movements													
Transfer to legal reserve	-	-	14,052	-	-	-	-	-	(14,052)	-	-	-	-
Directors' remuneration (refer note 24 (ix))	-	-	-	-	-	-	-	-	(3,700)	(3,700)	(3,700)	-	(3,700)
Capitalisation of retained earnings	-	-	-	-	-	-	-	11,621	(11,621)	-	-	-	-
Transaction with owners													
Dividend paid (refer note 24 (viii))	-	-	-	-	-	-	-	-	(135,198)	(135,198)	(135,198)	-	(135,198)
Bonus shares issued (refer note 24 (viii))	45,066	-	-	-	-	-	-	-	(45,066)	(45,066)	-	-	-
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	(13,808)	(13,808)
Funds invested by NCI	-	-	-	-	-	-	-	-	-	-	-	2,320	2,320
Balance at 31 December 2019	**946,384**	**221,667**	**567,053**	**(120,389)**	**(183,848)**	**(14,344)**	**82,805**	**75,040**	**851,949**	**1,479,933**	**2,426,317**	**238,255**	**2,664,572**

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2019

	Attributable to owners of the Company												
		Reserves											
	Share capital AED'000	**Share premium AED'000**	**Legal reserve AED'000**	**Translation reserve AED'000**	**Hyper-inflation reserve AED'000**	**Hedging reserve AED'000**	**General reserve AED'000**	**Capital reserve AED'000**	**Retained earnings AED'000**	**Total reserves AED'000**	**Total AED'000**	**Non-controlling interests (NCI) AED'000**	**Total equity AED'000**
Balance as at 31 December 2017	**858,398**	**221,667**	**529,066**	**(94,594)**	**(98,955)**	**7,452**	**82,805**	**52,798**	**1,105,620**	**1,805,859**	**2,664,257**	**186,638**	**2,850,895**
Adjustment on application of IFRS 9	-	-	-	-	-	-	-	-	(72,683)	(72,683)	(72,683)	-	(72,683)
Balance at 1 January 2018 (restated)	**858,398**	**221,667**	**529,066**	**(94,594)**	**(98,955)**	**7,452**	**82,805**	**52,798**	**1,032,937**	**1,733,176**	**2,591,574**	**186,638**	**2,778,212**
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	182,620	182,620	182,620	42,474	225,094
Other comprehensive income													
Foreign currency translation differences	-	-	-	(19,094)	(13,054)	-	-	-	-	(32,148)	(32,148)	(1,683)	(33,831)
Changes in cash flow hedges	-	-	-	-	-	(5,648)	-	-	-	(5,648)	(5,648)	-	(5,648)
Total comprehensive income for the year	**-**	**-**	**-**	**(19,094)**	**(13,054)**	**(5,648)**	**-**	**-**	**182,620**	**144,824**	**144,824**	**40,791**	**185,615**
Other equity movements													
Transfer to legal reserve	-	-	23,935	-	-	-	-	-	(23,935)	-	-	-	-
Directors' remuneration (refer note 24(ix))	-	-	-	-	-	-	-	-	(3,700)	(3,700)	(3,700)	-	(3,700)
Capitalisation of retained earnings	-	-	-	-	-	-	-	10,621	(10,621)	-	-	-	-
Transaction with owners													
Dividend paid	-	-	-	-	-	-	-	-	(214,600)	(214,600)	(214,600)	-	(214,600)
Bonus shares issued	42,920	-	-	-	-	-	-	-	(42,920)	(42,920)	-	-	-
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	(28,342)	(28,342)
Funds invested by NCI	-	-	-	-	-	-	-	-	-	-	-	11,165	11,165
Change in NCI due to acquisitions and disposals	-	-	-	-	-	-	-	-	(16,686)	(16,686)	(16,686)	2,445	(14,241)
Balance as at 31 December 2018	**901,318**	**221,667**	**553,001**	**(113,688)**	**(112,009)**	**1,804**	**82,805**	**63,419**	**903,095**	**1,600,094**	**2,501,412**	**212,697**	**2,714,109**

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

1. General information

R.A.K. Ceramics P.J.S.C. ("the Company" or "the Holding Company") was incorporated under Emiri Decree No. 6/89 dated 26 March 1989 as a limited liability company in the Emirate of Ras Al Khaimah, UAE. Subsequently, under Emiri Decree No. 9/91 dated 6 July 1991, the legal status of the Company was changed to Public Shareholding Company. The registered address of the Company is P.O. Box 4714, Al Jazeerah Al Hamra City, Ras Al Khaimah, United Arab Emirates. The Company is listed on Abu Dhabi Securities Exchange, UAE.

These consolidated financial statements as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (collectively referred to as "the Group" and individually as "the Group entities") the Group's interest in equity accounted investees. The Group's subsidiaries and equity accounted investees, their principal activities and the Group's interest have been disclosed in note 35 to these consolidated financial statements.

The principal activities of the Group are manufacturing and sale of a variety of ceramic products including tiles, bathroom sets, sanitary wares and table wares. The Company and certain entities in the Group are also engaged in investing in other entities, in UAE or globally, that undertake similar or ancillary activities. Accordingly, the Company also acts as a Holding Company of the Group entities. The Group is also engaged in contracting and other industrial manufacturing activities.

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

2.1 New and revised IFRSs applied with material effect on the consolidated financial statements

In the current year, the Group has applied for the first time IFRS 16 *Leases* (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. 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 Group is the lessor. Details of these new requirements are described in Note 4(k). The date of initial application of IFRS 16 for the Group is 1 January 2019. The Group has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). Management considers that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

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

2.1 New and revised IFRSs applied with material effect on the consolidated financial statements (continued)

(b) Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except for short-term leases), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Administrative and general expenses and Selling and distribution expenses' in profit or loss.

The Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Practical expedient

In applying IFRS 16 for the first time, the Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17 as permitted by the standard.

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics in the same jurisdiction;
- reliance on previous assessments of whether leases are onerous;
- the accounting for operating leases with a remaining lease term of 12 months or fewer as at 1 January 2019 as short-term leases and leases for low-value assets;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

2.1 New and revised IFRSs applied with material effect on the consolidated financial statements (continued)

(c) Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

(d) Financial impact of initial application of IFRS 16

The weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position on 1 January 2019 was 6.0% - 10.0%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the consolidated statement of financial position at the date of initial application:

	Amount AED'000
Operating lease commitments disclosed as at 31 December 2018	**120,807**
Less: impact of discounting using incremental borrowing rate	**(17,712)**
Lease liability recognised as at 1 January 2019	**103,095**
Disclosed as:	
- Non-current lease liabilities	**85,543**
- Current lease liabilities	**17,552**

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 recognized right-of-use assets relate to the following type of assets:

	31 December 2019 AED'000	1 January 2019 AED'000
Properties	**78,831**	91,482
Vehicles	**4,433**	4,634
Total right-of-use assets	**83,264**	96,116

The net impact on equity as on 1 January 2019 was a decrease:	
- in retained earnings	5,887
- in non-controlling interest	1,092
	6,979

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

2.1 New and revised IFRSs applied with material effect on the consolidated financial statements (continued)

Impact on segment disclosures

The application of IFRS 16 impacted the segment assets and segment liabilities as at 1 January 2019 and the impact shown below has been included in the segment assets and segment liabilities in Note 34.

	Ceramic Products AED'000	**Other Industrial AED'000**	**Others AED'000**	**Elimination AED'000**	**Total AED'000**
Segment assets	100,546	591	847	(5,868)	96,116
Segment liabilities	103,143	791	1,132	(1,971)	103,095

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements effective for annual periods beginning on or after 1 January 2019

- Amendments to IFRS 9 '*Prepayment Features with Negative Compensation'*
- Amendments to IAS 28 '*Investment in Associates and Joint Ventures'*: Relating to long-term interests in associates and joint ventures.
- Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
- Amendments to IAS 19 '*Employee Benefits Plan Amendment, Curtailment or Settlement'*
- IFRIC 23 '*Uncertainty over Income Tax Treatments'*

2.3 New and revised IFRS standards and interpretations but not yet effective

Management do not expect that the adoption of the below standards will have material impact on the consolidated financial statements.

- IFRS 17 '*Insurance Contracts*' relating to providing a more uniform measurement and presentation approach for all insurance contracts (effective for annual periods beginning after 1 January 2021).
- Amendments to IFRS 10 *'Consolidated Financial Statements'* and IAS 28 *'Investments in Associates and Joint Ventures'* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture (effective date deferred indefinitely, early adoption permitted).
- Annual Improvements to IFRSs 2018 Cycle Amendments to *IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRS 14 Regulatory Deferral Accounts, IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 34 Interim Financial Reporting, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 38 Intangible Assets, IFRIC 12 Service Concession Arrangements, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, IFRIC 22 Foreign Currency Transactions and Advance Consideration and SIC -32 Intangible Assets—Web Site Costs* (effective for annual periods beginning after 1 January 2020).

3 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the Articles of the Company and the UAE Federal Law No. (2) of 2015. Details of the Group's accounting policies are included in Note 4.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost convention except for certain financial instruments which are carried at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors are considered to be relevant. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 36.

(e) Measurement of fair values

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

3. Basis of preparation (continued)

(f) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and the Group entities controlled by the Company (its Subsidiaries) made upto 31 December each year.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. Summary of significant accounting policies

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are the present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if those interests were disposed of.

(b) Goodwill

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4. Summary of significant accounting policies (continued)

(c) Interests in equity accounted investees

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate or a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(d) Hyperinflation

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*, prior to their translation to AED. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognized in other comprehensive income and presented in the hyperinflation reserve in equity.

4. Summary of significant accounting policies (continued)

(d) Hyperinflation (continued)

The financial statements of subsidiaries, whose functional currency is the currency of a hyperinflationary economy, are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors. The difference between initial adjusted amounts is taken to the profit or loss.

When a functional currency of a subsidiary ceases to be hyperinflationary, the Group discontinues hyperinflation accounting in accordance with IAS 29 for annual periods ending on or after the date that the economy is identified as being non-hyperinflationary. The amounts expressed in the measuring unit current at the end of the last period in which IAS 29 was applied are used as the basis for the carrying amounts in subsequent financial statements.

To determine the existence or cessation of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the preceding three years to the reporting date.

(e) Foreign currencies

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are 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 translated 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 are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve. Foreign currency translation differences pertaining to hyperinflationary economies are recorded in the hyperinflation reserve in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in a foreign exchange translation reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

4. Summary of significant accounting policies (continued)

(e) Foreign currencies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(f) Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group 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 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.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

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 resulting in any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on other receivables, due from related parties and trade receivables 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 Group estimates impairment allowances using the general or simplified approach as considered appropriate. Under the general approach, the Group applies a three stage approach to estimate allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the financial assets that are not measured at FVTPL or FVTOCI. Financial assets migrate through three stages based on the change in credit risk since initial recognition.

The three stage ECL model is based on the change in credit quality of financial assets since initial recognition:

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered as credit impaired, an amount equal to the default probability-weighted lifetime ECL will be recorded.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments are classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

ECLs under the general approach, are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Impairment of financial assets (continued)

Under the simplified approach, the Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Impairment allowances are always measured at an amount equal to lifetime ECL.

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.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

***Significant increase in credit risk* (continued)**

In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract. The Group 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.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL 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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Measurement and recognition of ECL (continued)

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account,

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, hedges of certain interest rate and commodity derivatives as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) and interest rate swap contracts as the hedging instrument for all of its hedging relationships involving forward/interest rate swap contracts.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight-line amortisation. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses'.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity price risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Derivative financial instruments (continued)

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

Financial liabilities and equity

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Share capital

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Offsetting

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

(g) Property, plant and equipment

Recognition and measurement

Items of property plant and equipment (except land and capital work in progress) are measured at cost less accumulated depreciation and identified impairment losses (see accounting policy on impairment), if any.

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

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognized in the profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at its carrying value at the time of reclassification considering that the accounting policy for investment property is the 'Cost Model' in accordance with IAS 40.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment (except land and capital work in progress) less their estimated residual values using the straight-line method over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	Life (years)
• Buildings	20-35
• Plant and equipment	4-15
• Vehicles	3-10
• Furniture and fixtures	3-10
• Office equipment	2-10
• Roads and asphalting	5-10
• Quarry and land development	10

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4. Summary of significant accounting policies (continued)

(h) Capital work in progress

Capital work in progress is stated at cost less impairment, if any, until the construction is completed. Upon completion of construction, the cost of such assets together with the cost directly attributable to construction, including capitalized borrowing costs are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

(i) Intangible assets

Recognition and measurement

Other intangible asset, which are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and identified impairment losses, if any.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the profit or loss as incurred.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives of 5 to 15 years from the date that they are available for use, and is generally recognized in profit or loss. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or rendering services or for administrative purposes.

Investment properties are accounted for using the "Cost Model" under the IAS 40 *"Investment Property"* and is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on buildings is charged over its estimated useful life of 20 to 35 years.

Cost includes expenditure which is directly attributable to the acquisition of the investment property. The cost of self-constructed investment properties include the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

The cost of investment properties acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, comprises the fair value of the asset received or asset given up. If the fair value of the asset received and asset given up can be measured reliably, the fair value of the asset given up is used to measure cost, unless the fair value of the asset received is more clearly evident. Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

When the use of properties changes such that it is reclassified as property, plant and equipment or inventory, the transfer is effected at the carrying value of such property at the date of reclassification.

4. Summary of significant accounting policies (continued)

(k) Leases

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

At inception of the contract, the Group assesses whether a contract is or contains a lease. The Group 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 Group 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.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate. If the change in lease payments is due to a change in a floating interest rate, then the discount rate is also revised.

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the period(s) presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

4. Summary of significant accounting policies (continued)

(k) Leases (continued)

Policies applicable from 1 January 2019 (continued)

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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 asset reflects that the Group 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 Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Leased assets

Leases of assets that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group's consolidated statement of financial position

4. Summary of significant accounting policies (continued)

(k) Leases (continued)

Policies applicable prior to 1 January 2019

Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Investment property rental income

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(m) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(n) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually or whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

4. Summary of significant accounting policies (continued)

(n) Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

(o) Employee benefits

Short- term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the “contribution calculation salary” of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the “contribution calculation salary” respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

Annual leave and leave passage

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

Terminal benefits

The provision for staff terminal benefits is based on the liability which would arise if the employment of all staff was terminated at the reporting date and is calculated in accordance with the provisions of UAE Federal Labour Law and the relevant local laws applicable to overseas subsidiaries. Management considers these as long-term obligations and accordingly they are classified as long-term liabilities.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that 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 reporting 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 the effect of the time value of money is material).

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

4. Summary of significant accounting policies (continued)

(q) Warranties

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

(r) Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

(s) Revenue

The Group recognises revenue mainly from sale of goods consisting of tiles, sanitary wares, and related items. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

For sales of goods to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler’s specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

The Group has a right to recover the product when customers exercise their right of return. Consequently, the Group recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its past experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

4. Summary of significant accounting policies (continued)

(s) Revenue (continued)

Rendering of services

Revenue is recognized over time as services are provided. Invoices for services are issued when the Group provides services and are payable in accordance with the credit terms or agreements.

Dividend income

Dividend income is recognized in profit or loss on the date that the Group's right to receive the payment is established.

(t) Finance income and finance costs

Finance income comprises interest income on bank deposits, profit on wakala deposits and amount due from related parties. Finance income is recognized in profit or loss as it accrues, using the effective interest rate method.

Finance cost comprises interest expense on bank borrowings, profit expense on Islamic financing and bank charges. All finance costs are recognized in profit or loss using the effective interest rate method. However, borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset.

A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

(u) Tax

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities.

4. Summary of significant accounting policies (continued)

(u) Tax (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. Summary of significant accounting policies (continued)

(u) Tax (continued)

Zakat

In respect of operations in certain subsidiaries and equity accounted investees, zakat is provided in accordance with relevant fiscal regulations. Zakat is recognized in profit or loss except to the extent it relates to items recognized directly in equity, in which case it is recognized in equity.

The provision for zakat is charged to profit or loss. Additional amount, if any, that may become due on finalization of an asset is accounted for in the year in which assessment is finalized.

(v) Basic and diluted earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(w) Segment reporting

An operating segment is a component of the Group which engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment results which are reported to the Company's CEO (chief operating decision maker) include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(x) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

5. Revenue

	2019 AED'000	2018 AED'000
Sale of goods	**2,554,204**	2,698,757
Others	**20,329**	29,755
	2,574,533	2,728,512

The Group derives its revenue from contracts with customers for transfer of goods at a point in time.

(a) Disaggregation of revenue by geographical markets

31 December 2019	**Ceramic products AED'000**	**Other industrial AED'000**	**Others AED'000**	**Total AED'000**
Middle East (ME)	**1,206,421**	**44,679**	**17,974**	**1,269,074**
Europe	**425,281**	**-**	**-**	**425,281**
Asian countries	**648,391**	**71,021**	**2,355**	**721,767**
Other regions	**155,791**	**2,620**	**-**	**158,411**
	2,435,884	**118,320**	**20,329**	**2,574,533**

31 December 2018	Ceramics products AED'000	Other industrial AED'000	Others AED'000	Total AED'000
Middle East (ME)	1,260,940	40,293	27,034	1,328,267
Europe	439,536	74	-	439,610
Asian countries	740,093	64,838	2,721	807,652
Other regions	152,145	838	-	152,983
	2,592,714	106,043	29,755	2,728,512

6. Cost of sales

	2019 AED'000	2018 AED'000
Raw materials consumed	**758,556**	897,509
Change in inventory of finished goods	**52,098**	(47,046)
Allowance for slow moving and obsolete inventories – net	**9,781**	5,538
Direct labor	**218,635**	235,127
Power and fuel	**130,299**	151,933
LPG and natural gas	**189,838**	231,754
Depreciation on property, plant and equipment (refer note 14)	**110,009**	111,718
Depreciation of right-of-use assets (refer note 16)	**157**	-
Repairs and maintenance expense	**98,674**	113,262
Packing material expenses	**102,866**	104,763
Others	**48,085**	50,768
	1,718,998	1,855,326

7. Administrative and general expenses

	2019	2018
	AED'000	AED'000
Staff salaries and other associated costs	**97,424**	107,528
Depreciation on property, plant and equipment (refer note 14)	**18,502**	22,446
Depreciation on investment properties (refer note 18)	**10,616**	10,389
Depreciation of right-of-use assets (refer note 16)	**2,041**	-
Amortization of intangible assets (refer note 17)	**6,365**	6,459
Telephone, postal and office supplies	**5,548**	6,787
Repairs and maintenance expenses	**6,100**	7,203
Legal and professional fees	**12,552**	12,307
Utility expenses	**4,797**	5,559
Security charges	**2,005**	1,782
Information technology licenses and consultancy expenses	**10,677**	11,007
Expenses on investment properties	**8,935**	9,203
Others	**25,118**	31,535
	210,680	232,205

Others include AED 0.18 million (2018: AED 0.33 million) towards social contribution expenses.

7(i) Impairment (reversal)/loss on trade receivables and due from related parties

	2019	2018
	AED'000	AED'000
Impairment loss on trade receivables	**12,991**	19,201
Impairment (reversal)/loss on due from related parties	**(23,004)**	138
	(10,013)	19,339

8. Selling and distribution expenses

	2019	2018
	AED'000	AED'000
Staff salaries and other associated costs	**143,272**	137,884
Freight and transportation	**133,879**	126,983
Agents' commission	**28,032**	36,579
Advertisement and promotions expenses	**51,094**	42,443
Rental expenses	**5,835**	30,395
Travel and entertainment expenses	**5,077**	5,149
Depreciation on property, plant and equipment (refer note 14)	**6,584**	5,281
Depreciation of right-of-use assets (refer note 16)	**21,603**	-
Others	**16,246**	18,965
	411,622	403,679

9. Other income

	2019 AED'000	2018 AED'000
Rental income from investment properties (refer note 18(iii))	**30,558**	32,244
Sale of scrap and miscellaneous items	**2,211**	6,929
Insurance claims	**3,417**	4,733
Gain on disposal of property, plant and equipment	**1,379**	19,163
Gain on disposal of investment properties	**-**	154
Discount earned	**2,684**	1,488
Other miscellaneous income	**15,914**	27,046
	56,163	91,757

10. Finance costs and income

	2019 AED'000	2018 AED'000
Finance costs		
Interest on bank financing	**50,315**	48,953
Profit expense on Islamic financing	**24,784**	24,372
Interest on amount due to related parties (refer note 21)	**33**	40
Interest expense on lease liabilities	**5,913**	-
Bank charges	**2,919**	3,060
Net foreign exchange loss	**6,105**	14,728
Total (A)	**90,069**	91,153
Finance income		
Interest on bank deposits	**6,022**	4,856
Profit on wakala deposits	**190**	372
Net change in the fair value of derivatives	**2,666**	4,182
Total (B)	**8,878**	9,410
Net finance costs (A-B)	**81,191**	81,743

11. Investments in equity accounted investees

Movement in investments in equity accounted investees is set out below:

	2019 AED'000	2018 AED'000
Balance at 1 January	**42,606**	41,764
Share of profits	**13,630**	9,549
Dividend received during the year	**(16,194)**	(7,557)
Effect of movement in exchange rates	**-**	(1,150)
Balance at 31 December	**40,042**	42,606

Details of interest in equity accounted investees are disclosed in Note 35.

11. Investments in equity accounted investees (continued)

The following summarizes the information relating to each of the Group's investment in equity accounted investees:

	Kludi RAK LLC (51%)		Others		Total	
December	**2019**	2018	**2019**	2018	**2019**	2018
			AED'000			
Non-current assets	**7,998**	12,220	**14,097**	69,982	**22,095**	82,202
Current assets *(* includes cash & cash equivalents of AED 2.51 million (2018: AED 4.96 million)*	**90,285***	79,418*	**21,849**	23,857	**112,134**	103,275
Non-current liabilities *(*comprises of provision for employees' end of service benefits)*	**3,336***	2,800*	**12,726**	12,400	**16,062**	15,200
Current liabilities *(*comprises of trade payables and provisions)*	**32,906***	23,395*	**7,061***	63,622*	**39,967***	87,017*
Net assets	**62,041**	65,443	**16,159**	17,817	**78,200**	83,260
Group's share of net assets	**31,641**	33,376	**8,401**	9,230	**40,042**	42,606
Revenue	**153,885**	137,579	**19,639**	28,860	**173,524**	166,439
Depreciation and amortization	**1,732**	1,434	**-**	-	**1,732**	1,434
Interest income	**151**	158	**-**	-	**151**	158
Profit and total comprehensive income	**27,598**	21,327	**257**	1,160	**27,855**	22,487
Group's share of profit and comprehensive income	**14,075**	10,877	**(445)**	(1,328)	**13,630**	9,549
Dividend received by the Group	**15,810**	7,140	**384**	417	**16,194**	7,557

(i) RAK Watertech LLC, RAK Chimica LLC, Kludi RAK LLC have been considered as Joint Ventures of the Group since the Group has joint control of these entities with other partners and have rights to the net assets of the arrangement.

12. Tax expense

Foreign operations of the Group are liable for corporate taxes in the respective jurisdictions at prevailing tax rates. The corporate taxes are payable on the total income of the foreign operations after making the adjustments for certain disallowable expenses, exempt income and investment and other allowances.

	2019 AED'000	2018 AED'000
Current tax		
In respect of current year	**19,635**	18,440
Deferred tax		
Origination and reversal of temporary tax differences during the year	**7,057**	(6,008)
Tax expense for the year	**26,692**	12,432
Provision for tax	**170,682**	161,070
Deferred tax assets	**3,966**	7,613
Deferred tax liabilities	**8,413**	8,829

The Company operates in a tax free jurisdiction. The Group's consolidated effective tax rate is 8.53% for 2019 *(2018: 5.23%)* which is primarily due to the effect of tax rates in foreign jurisdictions.

13. Earnings per share

	2019	2018
Profit attributable to the owners of the Company (AED'000)	**164,378**	182,620
Weighted average number of ordinary shares ('000s)	**946,384**	946,384
Basic and diluted earnings per share (AED)	**0.17**	0.19

There was no dilution effect on the basic earnings per share as the Company does not have any such outstanding share commitments as at the reporting date.

14. Property, plant and equipment

	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphalting AED'000	Quarry and land development AED'000	Capital work in progress AED'000	Total AED'000
Cost									
Balance at 1 January 2018	613,927	2,939,051	107,144	48,815	68,260	20,959	129	64,676	3,862,961
Acquisition through business combinations (refer note 31 (a)(ii)	7,377	1,049	1,391	2,334	2,352	-	-	-	14,503
Additions during the year	1,431	34,449	673	7,704	2,411	-	-	191,280	237,948
Transfer from capital work in progress	17,568	82,682	38	843	2,615	1,012	-	(104,758)	-
Transfer to intangible/investment properties (refer notes 17 and 18)	-	-	-	-	-	-	-	(1,720)	(1,720)
Eliminated on disposals/write offs	(9,085)	(155,933)	(60,017)	(4,109)	(3,873)	-	-	(1,528)	(234,545)
Effect of movements in exchange rates	(20,050)	(65,896)	(969)	(1,132)	(1,565)	(493)	-	(4,174)	(94,279)
Balance at 31 December 2018	611,168	2,835,402	48,260	54,455	70,200	21,478	129	143,776	3,784,868
Balance at 1 January 2019	**611,168**	**2,835,402**	**48,260**	**54,455**	**70,200**	**21,478**	**129**	**143,776**	**3,784,868**
Additions during the year	**33,066**	**10,847**	**1,539**	**3,355**	**2,990**	**160**	**-**	**120,757**	**172,714**
Transfer from capital work in progress	**32,047**	**174,306**	**69**	**1,598**	**460**	**3,611**	**-**	**(212,091)**	**-**
Transfer to intangible/investment properties (refer notes (iv) below, 17 and 18)	**(17,318)**	-	-	-	-	-	-	**(1,659)**	**(18,977)**
Eliminated on disposals/write offs	**(2,259)**	**(140,205)**	**(1,968)**	**(1,400)**	**(4,057)**	**-**	**-**	**(1,647)**	**(151,536)**
Effect of movements in exchange rates	**(37,299)**	**(179,366)**	**(2,927)**	**(1,497)**	**(838)**	**(1,508)**	**-**	**(2,646)**	**(226,081)**
Balance at 31 December 2019	**619,405**	**2,700,984**	**44,973**	**56,511**	**68,755**	**23,741**	**129**	**46,490**	**3,560,988**

14. Property, plant and equipment (continued)

	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphalting AED'000	Quarry and land development AED'000	Capital work in progress AED'000	Total AED'000
Accumulated depreciation and impairment									
Balance at 1 January 2018	315,884	2,206,129	96,556	36,885	54,381	16,573	129	-	2,726,537
Acquisition through business combinations (refer note 31 (a)(ii)	4,397	679	1,391	2,074	2,050	-	-	-	10,591
Charge for the year	24,040	99,890	3,282	5,528	6,025	680	-	-	139,445
Disposals/write offs	(5,567)	(140,810)	(56,295)	(2,799)	(3,544)	-	-	-	(209,015)
Effect of movements in exchange rates	(10,370)	(50,556)	(1,040)	(683)	(893)	(449)	-	-	(63,991)
Balance at 31 December 2018	328,384	2,115,332	43,894	41,005	58,019	16,804	129	-	2,603,567
Balance at 1 January 2019	**328,384**	**2,115,332**	**43,894**	**41,005**	**58,019**	**16,804**	**129**	**-**	**2,603,567**
Charge for the year	**18,249**	**102,678**	**1,440**	**6,232**	**5,520**	**976**	**-**	**-**	**135,095**
Transfer to intangible/investment properties	**(11,158)**	-	-	-	-	-	-	-	**(11,158)**
Disposals/write offs	**(1,783)**	**(139,310)**	**(1,880)**	**(1,377)**	**(4,036)**	**-**	**-**	**-**	**(148,386)**
Effect of movements in exchange rates	**(23,506)**	**(143,239)**	**(2,871)**	**(473)**	**(541)**	**(1,492)**	**-**	**-**	**(172,122)**
Balance at 31 December 2019	**310,186**	**1,935,461**	**40,583**	**45,387**	**58,962**	**16,288**	**129**	**-**	**2,406,996**
Carrying amount									
31 December 2019	**309,219**	**765,523**	**4,390**	**11,124**	**9,793**	**7,453**	**-**	**46,490**	**1,153,992**
31 December 2018	282,784	720,070	4,366	13,450	12,181	4,674	-	143,776	1,181,301

14. Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2019	2018
	AED'000	AED'000
Cost of sales (refer note 6)	**110,009**	111,718
Administrative and general expenses (refer note 7)	**18,502**	22,446
Selling and distribution expenses (refer note 8)	**6,584**	5,281
	135,095	139,445

(i) Land and buildings

Certain of the Group's factory buildings and investment properties are constructed on plots of land measuring in total 46,634,931 sq.ft. which were received from the Government of Ras Al Khaimah under an Emiri Decree, free of cost as a Government grant.

(ii) Capital work-in-progress

Capital work in progress mainly comprises building structure under construction and heavy equipment, machinery and software under installation.

(iii) Impairment of property, plant and equipment

Property, plant and equipment includes AED 23.83 million *(2018: AED 29.24 million)* pertaining to one of the manufacturing units of the Group where production had previously been suspended. Management carried out an impairment test for this property, plant and equipment based on the fair value as determined by an independent valuer. The fair value measurement has been categorized as a Level 3 fair value based on the inputs to the valuation technique used. Based on the valuation, no impairment loss has been recorded against plant and equipment in the current year *(2018:nil)*.

(iv) Transfer to investment properties

Effective from October 2019, the Company's subsidiary in Iran leased its factory for a period of 2 years and 11 months, to a local third party. The Group undertook this transaction considering the limitations on cross-border transactions with Iran owing to US sanctions. The Group's subsidiary in Iran operated in a ring-fenced manner till September 2019 and post the lease agreement, it has abandoned its commercial operation for the period of the lease and accordingly due to the change in nature of use of land and buildings, the land and buildings with carrying amount of AED 6.16 million were reclassified from property, plant and equipment to investment properties. Other assets such as plant and machinery, vehicles, furniture etc continue to remain in the property, plant and equipment.

15. Goodwill

	2019	2018
	AED'000	AED'000
Balance as at 1 January	**120,144**	89,001
Add: acquisition through business combination (refer note 31 (a)(ii))	**-**	31,486
Less: effects of movements in exchange rate	**234**	(343)
Balance as at 31 December	**120,378**	120,144

As at 31 December 2019, Goodwill comprises AED 50.4 million, AED 5.5 million, AED 6.0 million, AED 27 million and AED 31.5 million recognized on acquisition of Ceramin FZ LLC, RAK Ceramics UK Limited, RAK Distribution Europe S.A.R.L, ARK International Trading Company Limited and RAK Saudi LLC respectively.

During the current year, management carried out impairment tests based on the "value in use" calculation of goodwill recognized on the acquisition of subsidiaries. These calculations were based on cash flow projections based on estimated operating results of the respective cash generating units. The key assumptions used to determine the values were as follows:

	2019	2018
Discount rate	**8%-15%**	10%-15%
Average annual growth rate	**8%-13%**	8%-13%
Terminal value growth rate	**1%**	1%
Years of forecast	**5 years**	5 years

Based on the assessment, the Group has not recorded any impairment loss during the year (2018: Nil) as the recoverable amounts were higher than the carrying values as at the reporting date. Further, based on the sensitivity analysis, management has not identified that a reasonably possible change in key assumptions could cause the carrying amount to exceed recoverable amount.

The discount rate was a pre-tax measure based on the rate of 20-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

16. Rights-of-use assets

	Properties AED'000	Vehicles AED'000	Total AED'000
Cost			
At 1 January 2019	123,468	6,196	129,664
Additions during the year	15,321	1,447	16,768
Deletions	(3,284)	-	(3,284)
Effects of movements in exchange rate	(4,512)	(120)	(4,632)
At 31 December 2019	**130,993**	**7,523**	**138,516**
Accumulated depreciation			
At 1 January 2019	31,986	1,562	33,548
Additions	22,266	1,535	23,801
Deletions	(1,203)	-	(1,203)
Effects of movements in exchange rate	(887)	(7)	(894)
At 31 December 2019	**52,162**	**3,090**	**55,252**
Carrying amount			
At 31 December 2019	**78,831**	**4,433**	**83,264**

The depreciation charge has been allocated as follows:

	2019 AED'000
Cost of sales (refer note 6)	**157**
Administrative and general expenses (refer note 7)	**2,041**
Selling and distribution expenses (refer note 8)	**21,603**
	23,801

The Group leases several assets including showrooms and vehicles. The average lease term is 5 years.

The maturity analysis of lease liabilities is disclosed in note 27.

Amounts recognized in profit or loss

	2019 AED'000
Depreciation expenses of right-of-use assets	**23,801**
Expenses relating to short-term leases / low value assets	**6,839**
Interest expense on lease liabilities	**5,913**

17. Intangible assets

	2019 AED'000	2018 AED'000
Balance at 1 January	**27,243**	27,929
Additions during the year	**3,663**	5,459
Transfer from property, plant and equipment (refer note 14)	**1,380**	441
Amortization for the year (refer note 7)	**(6,365)**	(6,459)
Effect of movement in exchange rates	**(88)**	(127)
Balance at 31 December	**25,833**	27,243

Intangible assets mainly comprise ERP software, implemented in the Company and certain subsidiaries. These are amortized over the period for which the software is used and the period of licenses.

18. Investment properties

	2019 AED'000	2018 AED'000
Cost		
Balance at 1 January	**1,279,439**	1,278,515
Additions during the year	**271**	1,479
Transfer from property, plant and equipment (refer note 14)	**17,597**	1,279
Disposal	**-**	(1,652)
Effect of movement in exchange rates	**(1,401)**	(182)
Balance at 31 December	**1,295,906**	1,279,439
Accumulated depreciation		
Balance at 1 January	**98,248**	88,165
Charge for the year (refer note 7)	**10,616**	10,389
Transfer from property, plant and equipment (refer note 14)	**11,158**	-
Eliminated on disposal	**-**	(305)
Effect of movement in exchange rates	**(509)**	(1)
Balance at 31 December	**119,513**	98,248
Carrying amount – at 31 December	**1,176,393**	1,181,191
Fair value – at 31 December	**1,343,500**	1,332,700

(i) Investment properties comprise land and buildings that are located in the United Arab Emirates, Bangladesh, Lebanon and Iran.

18. Investment properties (continued)

(ii) The investment properties located outside U.A.E amount to AED 46.23 million (*2018: AED 41.50 million).*

(iii) During the year ended 31 December 2019, the Group earned rental income amounting to AED 30.56 million *(2018: AED 32.24 million)* from its investment properties (refer note 9) and direct operating expenses arising on these investment properties amounted to AED 8.94 million (2018: 9.20 million) (Note 7).

An independent valuation of the fair value of the Group's properties is undertaken annually. The fair value of the Group's investment properties at 31 December 2019 has been arrived at on the basis of an independent property valuation as of that date. The valuer has appropriate qualifications and recent experience in the valuation of properties in the location and category of the property being valued.

The fair value measurement has been categorized as a Level 3 fair value based on the inputs to the valuation technique used and in estimating the fair value, the highest and best use of the properties is their current use.

As the recoverable amount was higher than the carrying value, the Group has not recorded any impairment loss (*2018: nil*).

The investment property valuation used the market approach, adjusted by the influence of the major market factors, including demand, transactions, availability, inflation and the purchasing power of money. The Group has considered inflation rate, risk free rate, risk premium, interest rate and statistical average growth rate.

(iv) As disclosed in Note 14(iv), during the year the Group has transferred land and buildings due to change in nature of use of properties.

19. Trade and other receivables

	2019	2018
	AED'000	AED'000
Trade receivables	**1,068,375**	1,076,506
Less: Allowance for expected credit loss	**(227,318)**	(252,438)
	841,057	824,068
Advances and prepayments	**180,172**	178,284
Deposits	**27,651**	23,278
Other receivables	**130,093**	185,421
	1,178,973	1,211,051

Trade receivables amounting to AED 113.36 million *(2018: AED 114.48 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 26(b)).

No interest is charged on outstanding trade receivables.

19. Trade and other receivables (continued)

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

(i) Long-term receivables

	2019 AED'000	2018 AED'000
Trade receivables	**4,273**	-
Less: Allowance for expected credit loss	**(665)**	-
	3,608	-
Less : current portion included in trade receivables	**(544)**	-
Long-term trade receivables (A)	**3,064**	-
Other receivables	**110,935**	128,840
Less : Allowance for impairment loss	**(26,375)**	(26,375)
	84,560	102,465
Less: current portion included in other receivables	**(21,900)**	(69,113)
Long-term other receivables (B)	**62,660**	33,352
Long-term receivables (A+B)	**65,724**	33,352

The above long-term other receivable represents amounts receivable on disposal of a subsidiary and is partially secured by post-dated cheques.

Expected credit loss assessment for trade receivables

The following table provides information about the exposure to credit risk and ECLs for trade receivables (including long-term portion) as at 31 December 2019.

	Weighted average loss rate	Gross carrying amount AED'000	Loss allowance AED'000	Credit impaired
Current (not past due)	**0.86%**	**477,732**	**(4,091)**	**No**
1 – 90 days past due	**2.92%**	**203,731**	**(5,940)**	**No**
91 – 180 days past due	**10.44%**	**78,790**	**(8,229)**	**No**
181 – 360 days past due	**21.70%**	**75,109**	**(16,296)**	**No**
More than 360 days past due	**81.70%**	**236,742**	**(193,427)**	**Yes**
		1,072,104	**(227,983)**	

19. Trade and other receivables (continued)

***Expected credit loss assessment for trade receivables* (continued)**

Loss rates are based on actual credit loss experience over the past years and are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on GDP forecast and industry outlook.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	Weighted average loss rate	Gross carrying amount AED'000	Loss allowance AED'000	Credit impaired
Current (not past due)	0.51%	475,508	(2,444)	No
1 – 90 days past due	1.69%	211,807	(3,579)	No
91 – 180 days past due	6.98%	75,241	(5,255)	No
181 – 360 days past due	16.58%	70,131	(11,630)	No
More than 360 days past due	94.14%	243,819	(229,530)	Yes
		1,076,506	(252,438)	

Impairment losses

The movement in the allowance for expected credit loss of trade receivables is as follows:

	2019 AED'000	2018 AED'000
At 1 January	**252,438**	187,078
Adjustment on application of IFRS 9	**-**	46,566
Charge during the year (refer note 7(i))	**12,991**	19,201
On acquisition of subsidiaries – net	**-**	20,804
Written off during the year	**(30,776)**	(17,474)
Effect of movements in exchange rate	**(6,670)**	(3,737)
At 31 December	**227,983**	252,438

The movement in the allowance for ECL on other receivables is as follows:

	2019 AED'000	2018 AED'000
At 1 January	**26,375**	-
Adjustment on application of IFRS 9	**-**	45,277
Written off during the year	**-**	(18,902)
At 31 December	**26,375**	26,375

20. Inventories

	2019 AED'000	2018 AED'000
Finished goods (net of net realizable value adjustments)	**934,808**	937,891
Less : Allowance for slow moving and obsolete inventories	**(122,151)**	(130,504)
Subtotal (A)	**812,657**	807,387
Raw materials	**211,272**	230,449
Stores and spares*	**194,836**	188,224
	406,108	418,673
Less : Allowance for slow-moving inventories	**(72,024)**	(67,679)
Subtotal (B)	**334,084**	350,994
Goods-in-transit (C)	**47,261**	73,097
Work-in-progress (D)	**19,475**	18,027
Total (A+B+C+D)	**1,213,477**	1,249,505

* Critical spares are depreciated based on the useful life of the plant until they are issued to the factory for capitalization. The depreciation charge is recognized in these consolidated financial statements under allowance for inventories.

At 31 December 2019, the Group has recognized a cumulative loss due to write-down of finished goods inventories of AED 112.01 million against cost of AED 346.92 million *(2018: AED 92.54 million against cost of AED 274.21 million)* to bring it to its net realizable value which was lower than their costs. The difference in write down of AED 19.82 million *(2018: AED 16.98 million*) is included in cost of sales in the consolidated statement of profit or loss.

Inventories amounting to AED 253.88 million *(2018: AED 241.56 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 26 (b)(ii)).

The movement in allowance for slow moving and obsolete inventories is as follows:

	2019 AED'000	2018 AED'000
As at 1 January	**198,183**	200,901
Add: charge for the year (refer note 6)	**9,781**	5,538
Add: addition due to acquisitions	**-**	17,593
Less: written off	**(10,917)**	(22,275)
Effect of movements in exchange rates	**(2,872)**	(3,574)
As at 31 December	**194,175**	198,183

21. Related parties

The transactions of the Group with its related parties are at arms length. The significant transactions entered into by the Group with related parties during the year, other than those disclosed elsewhere in these consolidated financial statements (see in particular notes 11 and 31), are as follows:

Transactions with related parties

	2019 AED'000	2018 AED'000
A) Equity accounted investees		
Sale of goods and services and construction contracts	**1,955**	5,362
Purchase of goods and rendering of services	**174**	209
Rental income	**206**	323
Interest expenses (refer note 10)	**33**	40
B) Other related parties		
Sale of goods and services and construction contracts	**104,967**	100,537
Purchase of goods and rendering of services	**264,710**	318,507
Rental income	**2,400**	2,991

C) Investments and divestments with related parties

(i) Consideration on purchase of equity accounted investees

	2019 AED'000	2018 AED'000
RAK Saudi LLC, Saudi Arabia (refer note 31 (a)(ii))	**-**	5,882

Key management personnel compensation

The remuneration of Directors and other key management personnel of the Company during the year were as follows:

	2019 AED'000	2018 AED'000
Short-term benefits	**10,262**	10,504
Staff terminal benefits	**399**	226
Board of Directors' remuneration	**3,700**	3,700

21. Related parties (continued)

Due from related parties

Management of the Company, based on their review of these outstanding balances, is of the view that the existing provision is sufficient to cover any likely impairment losses. During the current and previous year, the Group has recognized impairment losses on amount due from related parties primarily domiciled in the UAE and other Gulf countries.

	2019 AED'000	2018 AED'000
Equity accounted investees	**44,147**	96,731
Other related parties	**43,417**	90,449
	87,564	187,180
Less : Allowance for impairment loss	**(50,201)**	(74,550)
	37,363	112,630

Due to related parties

	2019 AED'000	2018 AED'000
Equity accounted investees	**4,416**	5,084
Other related parties	**33,924**	44,430
	38,340	49,514

The movement in the allowances for ECL on amount due from related parties is as follows:

	2019 AED'000	2018 AED'000
At 1 January	**74,550**	97,078
Adjustment on application of IFRS 9	**-**	(19,843)
(Write back)/charge during the year (refer note 7(i))	**(23,004)**	138
Written off during the year	**(1,340)**	(2,823)
Effect of movements in exchange rate	**(5)**	-
At 31 December	**50,201**	74,550

22. Derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. The Group classified interest rate swaps and commodity derivatives as cash flow hedges in accordance with the recognition criteria of IFRS 9, as it is mitigating the risk of cash flow variations due to movements in interest rates and commodity prices.

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values.

	2019	2018
	AED'000	AED'000
Derivative financial assets		
Interest rate swaps used for hedging	**-**	5,505
Commodity derivative used for hedging	**364**	-
Other currency and interest rate swaps	**3,955**	790
	4,319	6,295

	2019	2018
	AED'000	AED'000
Derivative financial liabilities		
Interest rate swaps used for hedging	**14,708**	-
Commodity derivative used for hedging	**-**	3,701
Forward exchange contracts	**925**	426
	15,633	4,127

23. Bank balances and cash

	2019	2018
	AED'000	AED'000
Cash in hand	**1,660**	1,669
Cash at bank		
- in bank deposits with maturity less than three months	**48,126**	119,166
- in Wakala deposits with maturity less than three months	**20,000**	19,800
- in current accounts	**153,465**	168,799
- in margin deposits	**4,419**	817
- in call accounts	**16,589**	14,541
Cash and cash equivalents (excluding allowance for impairment loss)	**244,259**	324,792
Less : Allowance for expected credit loss	**(683)**	(683)
Cash and cash equivalents (A)	**243,576**	324,109
Bank deposits with an original maturity of more than three months (B)	**139,473**	-
Bank balances and cash (A+B)	**383,049**	324,109

23. Bank balances and cash (continued)

Cash in hand and cash at bank includes AED 0.97 million (2018: AED 0.52 million) and AED 100.24 million (2018: AED 86.04 million) respectively, held outside UAE.

All fixed deposits carry interest at normal commercial rates and include AED 1.61 million (2018: AED 0.37 million) which are held by bank under lien against bank facilities availed by the Group (refer note 26 (b)(i)). Wakala deposits carry profit at rates agreed with Islamic banks and placed with the banks for an original maturity period of less than three months.

Current accounts and margin deposits are non-interest bearing accounts.

24. Capital and reserves

(i) Share capital

	2019 AED'000	2018 AED'000
Authorised, issued and paid up		
170,000,000 shares of AED 1 each paid up in cash	**170,000**	170,000
776,384,722 shares of AED 1 each issued as bonus shares *(2018: 731,318,783 shares of AED 1 each issued as bonus shares)*	**776,384**	731,318
	946,384	901,318

The holders of ordinary shares are entitled to receive dividends declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(ii) Share premium reserve

	2019 AED'000
On the issue of shares of :	
- R.A.K. Ceramics P.J.S.C. (refer note (a) below)	**165,000**
- R.A.K Ceramics (Bangladesh) Limited, Bangladesh (refer note (b) below)	**60,391**
Less : share issue expenses	**(3,583)**
Less : share premium released on disposal (refer note (c) below)	**(141)**
	221,667

(a) In October 1998, the shareholders of the Company resolved to issue 15 million ordinary shares at an exercise price of AED 12 per share resulting in share premium of AED 165 million.

(b) In February 2010, the shareholders of RAK Ceramics (Bangladesh) Limited resolved to issue 44.51 million ordinary shares at an exercise price of AED 1.36 per share resulting in share premium of AED 60.39 million. The share issue costs resulting from the increase in share capital of RAK Ceramics (Bangladesh) Limited of AED 3.58 million was recognized as a reduction in equity.

(c) In 2012, the Group sold 500,000 shares of RAK Ceramics (Bangladesh) Limited out of shares issued at a premium. Accordingly share premium was reduced by AED 0.14 million.

24. Capital and reserves (continued)

(iii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items that form part of the Group's net investment in foreign operations, except for the translation difference of the subsidiary in Iran which is included in hyperinflation reserve.

(iv) Hyperinflation reserve

The hyperinflation reserve comprises all foreign currency differences arising from the translation of the financial statements of RAK Ceramics PJSC Limited, Iran when it was operating in a hyperinflationary environment (from 2013 to 2014) and the effect of translating the financial statements at the current inflation index in accordance with IAS 29.

	RAK Iran AED'000
As at 1 January 2018	(98,955)
For the year 2018	
Foreign currency translation differences	(13,054)
As at 31 December 2018	(112,009)
For the year 2019	
Foreign currency translation differences*	**(71,839)**
As at 31 December 2019	**(183,848)**

* Due to significantly adverse currency exchange rate of Iranian Rial.

In 2015, the economy of the Islamic Republic of Iran ceased to meet the criteria for treatment as a hyperinflationary economy. Accordingly, beginning 1 January 2015, the Group ceased to apply IAS 29 on a prospective basis. As a result of this change, the carrying amounts of non-monetary assets at 31 December 2014 formed the basis for the assets at 1 January 2015. However, thereafter the foreign currency translation differences that arose on RAK Ceramics PJSC Limited (subsidiary in Iran) during the period of hyperinflation, and continue to be, classified as hyperinflation reserve in the equity.

The International Practices Task Force (IPTF) of the Centre for Audit Quality monitors the status of 'highly inflationary' countries and recently have concluded that the three year cumulative inflation rates in Iran are projected to exceed 100% threshold. The management continues to monitor the applicability of IAS 29.

(v) Legal reserve

In accordance with the Articles of Association of entities in the Group and Article 239 of UAE Federal Law No. (2) of 2015, 10% of the net profit for the year of the individual entities to which the law is applicable, has been transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of these entities. This reserve is non-distributable except in certain circumstances as permitted by the abovementioned Law. The consolidated statutory reserve reflects transfers made post acquisition for applicable subsidiaries.

24. Capital and reserves (continued)

(vi) General reserve

General reserve of AED 82.8 million *(2018: AED 82.8 million)* represents net profit of prior years. This reserve is distributable.

(vii) Capital reserve

Capital reserve of AED 75.04 million *(2018: AED 63.42 million)* represents the Group's share of retained earnings capitalized by various subsidiaries. The capital reserve is non-distributable.

(viii) Dividend

For 2019, the Directors have proposed a cash dividend of 15% (AED 141,958 thousand) and stock dividend of 5% (AED 47,319 thousand) which will be submitted for the approval of the shareholders at the Annual General Meeting on 10th March 2020. At the Annual General Meeting (AGM) held on 11 March 2019, the Shareholders approved the cash dividend of 15% (AED 135,198 thousand) and stock dividend of 5% (AED 45,066 thousand) for the year 2018, which was proposed by the Board of Directors.

(ix) Directors' remuneration

At the Annual General Meeting (AGM) held on 11 March 2019, the Shareholders approved the Directors' remuneration amounting to AED 3.7 million for the year ended 31 December 2018 *(2018: AED 3.7 million for the year ended 31 December 2017)*

(x) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

25. Non-controlling interests

The following summarizes the information relating to the Group's non-controlling interests.

	RAK Ceramics (Bangladesh) Limited		RAK Porcelain LLC		Others		Elimination		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
NCI Percentage	**31.87%**	31.87%	**50%**	50%						
	AED'000									
Non-current assets	**171,702**	188,091	**100,366**	64,424						
Current assets	**382,785**	364,020	**243,936**	213,139						
Non-current liabilities	**(9,575)**	(12,644)	**(21,304)**	(6,935)						
Current liabilities	**(233,085)**	(236,148)	**(68,605)**	(56,633)						
Net assets	**311,827**	303,319	**254,393**	213,995						
Net assets attributable to NCI	**99,852**	97,144	**131,184**	111,939	**21,620**	18,350	**(14,401)**	(14,736)	**238,255**	212,697
Revenue	**282,388**	300,386	**269,461**	263,986						
Profit	**32,093**	38,318	**51,291**	56,015						
Other comprehensive income/(loss)	**(6,338)**	(1,540)	**(360)**	(561)						
Total comprehensive income	**25,755**	36,778	**50,931**	55,454						
Profit/(loss) allocated to NCI	**10,227**	12,211	**29,080**	31,385	**1,471**	(1,122)	**-**	-	**40,778**	42,474
Other comprehensive income/(loss) allocated to NCI	**(1,999)**	(470)	**(190)**	(306)	**(451)**	(907)	**-**	-	**(2,640)**	(1,683)

26. Bank financing arrangements

(a) Islamic bank financing

	2019 AED'000	2018 AED'000
(i) Short-term		
Mudaraba facilities (A)	**25,000**	70,000
Commodity Murabaha facilities (B)	**126,175**	142,775
Current portion of long-term financing (refer note (ii) below)	**135,857**	112,245
	287,032	325,020

	2019 AED'000	2018 AED'000
(ii) Long-term – Islamic bank financing		
Commodity Murabaha facilities (B)	**339,475**	375,023
Ijarah facilities (C)	**293,880**	91,837
Less : current portion of long-term financing	**(135,857)**	(112,245)
	497,498	354,615

	2019 AED'000	2018 AED'000
Movement:		
Balance as at 1 January	**466,860**	486,896
Availed during the year	**387,516**	91,837
Less : repaid during the year	**(221,021)**	(111,873)
Balance as at end of the year	**633,355**	466,860
Less : current portion included in short-term (refer 26 (a)(i))	**(135,857)**	(112,245)
	497,498	354,615

The terms and conditions of outstanding long-term Commodity Murabaha and Ijarah facilities are as follows:

Currency	Profit range	2019 AED'000	2018 AED'000
USD	3.0%-4.9%	**598,262**	417,034
AED	2.5%-4.0%	**35,093**	49,826
		633,355	466,860

26. Bank financing arrangements (continued)

(a) Islamic bank financing (continued)

Islamic financings represent facilities such as Mudaraba, Murabaha and Ijarah facilities obtained from Banks. These financings are denominated either in the functional currency of the Company or in USD, a currency to which the functional currency of the Company is currently pegged. The long-term Commodity Murabaha facilities mature up to 2027.

These financings are secured by:

- negative pledge over certain assets of the Group;
- pari passu rights with other unsecured and unsubordinated creditors; and
- a promissory note for AED 154 million.

(A) Mudaraba is a mode of Islamic financing where a contract is entered into by two parties whereby one party (Bank) provides funds to another party (the Group) who then invest in an activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit.

(B) In Murabaha Islamic financing, a contract is entered into between two parties whereby one party (Bank) purchases an asset and sells it to another party (the Group), on a deferred payment basis at a pre-agreed profit.

(C) Ijarah is another mode of Islamic financing where a contract is entered into between two parties whereby one party (Bank) purchases/acquires an asset, either from a third party or from the Group, and leases it to the Group against certain rental payments and for a specific lease period.

(b) Interest bearing bank financing

	2019	2018
	AED'000	AED'000
(i) Short-term		
Bank overdraft	**71,281**	4,275
Short-term loan	**182,088**	130,947
Current portion of long-term financing	**233,333**	226,758
	486,702	361,980

	2019	2018
	AED'000	AED'000
(ii) Long-term bank loans		
Balance as at 1 January	**938,145**	1,094,192
Availed during the year	**9,466**	109,556
Less : repaid during the year	**(228,207)**	(265,603)
Balance as at end of the year	**719,404**	938,145
Less : current portion of long-term financing (refer 26 (b)(i))	**(233,333)**	(226,758)
	486,071	711,387

26. Bank financing arrangements (continued)

(b) Interest bearing bank financing (continued)

The terms and conditions of outstanding long-term loans are as follows:

Currency	Profit range	2019 AED'000	2018 AED'000
USD	2.9% - 5.8%	**669,522**	890,241
INR	8.3% - 9.4%	**49,330**	47,636
SAR	9.4% - 9.5%	**-**	135
GBP	1.6% - 5.0%	**536**	85
EUR	1.5% - 3.9%	**16**	48
		719,404	938,145

The Group has obtained long-term and short-term interest bearing bank facilities from various banks for financing the acquisition of assets, project financing or to meet its working capital requirements. The majority of these bank borrowings are denominated either in the functional currencies of the respective borrowing entities or in USD, a currency to which the functional currency of the Company is currently pegged. Rates of interest on the above bank loans are based on normal commercial rates. The long-term bank loans mature up to 2024.

These bank borrowings are secured by:

- a negative pledge over certain assets of the Group;
- pari passu rights with other unsecured and unsubordinated creditors;
- a promissory note for AED 864 million;
- assignment of insurance over furniture, fixtures and equipment's of certain Group entities in favour of the bank;
- corporate guarantee given by the Group;
- hypothecation of inventories and receivables of certain Group entities (refer notes 20 and 19); and
- fixed deposits held under lien (refer note 23).

27. Lease liabilities

	2019
	AED'000
Analysed as:	
Non-current	**68,691**
Current	**23,075**
	91,766

Maturity analysis

	2019
	AED'000
2020	**27,308**
2021	**22,893**
2022	**17,148**
2023	**12,836**
2024	**7,633**
2025-2030	**17,853**
	105,671
Less: unearned interest	**(13,905)**
	91,766

28. Trade and other payables

	2019	2018
	AED'000	AED'000
Trade payables	**315,654**	377,091
Accrued and other expenses	**191,689**	206,804
Advance from customers	**54,002**	39,718
Commission and rebates payable	**60,621**	60,109
Other payables	**34,233**	37,203
	656,199	720,925

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The carrying amount of trade payables approximates their fair value.

29. Provision for employees' end of service benefits

	2019	2018
	AED'000	AED'000
As at 1 January	**85,464**	85,743
On acquisition of a subsidiary	**-**	1,952
Charge for the year	**17,528**	16,235
Payments made during the year	**(17,769)**	(18,139)
Effect of movements in exchange rate	**(1,358)**	(327)
As at 31 December	**83,865**	85,464

30. Contingent liabilities and commitments

	2019	2018
	AED'000	AED'000
Contingent liabilities		
Letters of guarantee	**10,760**	17,136
Letters of credit	**44,781**	62,612
Value added tax and other tax contingencies	**82,952**	72,754
Commitments		
Capital commitments	**41,729**	32,845

In some jurisdictions, the tax returns for certain years have not been reviewed by the tax authorities and there are unresolved disputed corporate tax assessments and VAT claims by the authorities. However, the Group's management believes that adequate provisions have been recognized for potential tax contingencies.

The Company has issued corporate guarantees for advances obtained by related parties from commercial banks. Guarantees outstanding as at 31 December 2019 amount to AED 242.6 million (2018: AED 258.5 million).

31. Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisitions

Acquisition of subsidiaries in 2019

(i) No acquisitions of subsidiaries were made during the year.

Acquisition of subsidiaries in 2018

(ii) Effective 1 February 2018, the Group acquired a further 30% equity interest in its previously equity accounted investee, RAK Saudi LLC thereby increasing the shareholding of the Group to 80%. Accordingly, from that date the Group exercised control over the financial and operating policies of the investee.

The fair values of the identifiable assets and liabilities of RAK Saudi LLC on 1 February 2018 were as follows:

	Amount AED'000
Property, plant and equipment	3,912
Inventories	29,699
Trade and other receivables	12,561
Cash in hand and at bank	1,145
Total assets	47,317
Less: total liabilities	(79,322)
Net liabilities	(32,005)
Add: non-controlling interests	6,401
Less: fair value of pre-existing interests	-
Net liabilities assumed	(25,604)
Less: consideration (note 21 (c)(i))	(5,882)
Goodwill	31,486

The goodwill is attributable mainly to the synergies in distribution and benefits expected to be achieved from integrating the Company into the Group's existing Ceramic business. None of the goodwill recognised is expected to be deductible for tax purposes.

In the period from acquisition of the controlling interests in RAK Saudi LLC, the investee contributed total revenue of AED 36.49 million and a net loss of AED 9.54 million to the Group's result (before eliminations). Had the acquisition been effective 1 January 2018, the subsidiary would have contributed total revenue of AED 38.79 million and net loss of AED 9.54 million.

Effective 1 July 2018, the Group acquired the remaining non-controlling interests in RAK Saudi LLC for AED 9.8 million and it became a wholly owned subsidiary. This is reflected as follows:

	Amount AED'000
- increase in non-controlling interest	7,097
- decrease in retained earnings	(16,897)
Net consideration paid	(9,800)

31. Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(b) Disposals

Disposals of subsidiaries in 2019

(i) No disposal of subsidiaries took place during the year.

Disposals of subsidiaries in 2018

(ii) During 2018, the Group sold 49% of its equity interest in the wholly owned subsidiary RAK Paints LLC for a consideration of AED 1.96 million. Accordingly, the Group's shareholding decreased from 100% to 51%, resulting in an increase in non-controlling interests of AED 1.75 million.

32. Operating leases

As lessor

Certain investment properties are leased out to third parties under operating leases agreements. The leases typically run for a period of more than five years, with an option to renew the lease after that date. Lease rentals are usually reviewed periodically to reflect market rentals.

	2019	2018
	AED'000	AED'000
Less than one year	**5,000**	26,108
Between two and five years	**34,920**	36,372
More than five years	**81,560**	72,743
	121,480	135,223

33. Financial instruments

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

33. Financial instruments (continued)

Accounting classifications and fair values (continued)

	Carrying value					Fair value			
31 December 2019	**Fair value hedging instruments AED'000**	**Mandatory at FVTPL* AED'000**	**Financial assets at amortised cost AED'000**	**Other financial liabilities AED'000**	**Total AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets measured at fair value									
Commodity derivatives used for hedging	**364**	**-**	**-**	**-**	**364**	**-**	**364**	**-**	**364**
Other currency and interest swaps	**-**	**3,955**	**-**	**-**	**3,955**	**-**	**3,955**	**-**	**3,955**
	364	**3,955**	**-**	**-**	**4,319**	**-**	**4,319**	**-**	**4,319**
Financial assets measured at amortised cost									
Long-term receivables	**-**	**-**	**65,724**	**-**	**65,724**	**-**	**-**	**-**	**-**
Trade and other receivables	**-**	**-**	**998,801**	**-**	**998,801**	**-**	**-**	**-**	**-**
Due from related parties	**-**	**-**	**37,363**	**-**	**37,363**	**-**	**-**	**-**	**-**
Bank balances and cash	**-**	**-**	**383,049**	**-**	**383,049**	**-**	**-**	**-**	**-**
	-	**-**	**1,484,937**	**-**	**1,484,937**	**-**	**-**	**-**	**-**
Financial liabilities measured at fair value									
Interest rate swaps used for hedging	**14,708**	**-**	**-**	**-**	**14,708**	**-**	**14,708**	**-**	**14,708**
Other currency and interest swaps	**-**	**925**	**-**	**-**	**925**	**-**	**925**	**-**	**925**
	14,708	**925**	**-**	**-**	**15,633**	**-**	**15,633**	**-**	**15,633**
Financial liabilities measured at amortised cost									
Islamic bank financing	**-**	**-**	**-**	**784,530**	**784,530**	**-**	**-**	**-**	**-**
Interest bearing bank financing	**-**	**-**	**-**	**972,773**	**972,773**	**-**	**-**	**-**	**-**
Trade and other payables	**-**	**-**	**-**	**602,197**	**602,197**	**-**	**-**	**-**	**-**
Due to related parties	**-**	**-**	**-**	**38,340**	**38,340**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**2,397,840**	**2,397,840**	**-**	**-**	**-**	**-**

**FVTPL: fair value through profit or loss*

33. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2018	Carrying value: Fair value hedging instruments AED'000	Carrying value: Mandatory at FVTPL AED'000	Carrying value: Financial assets at amortised cost AED'000	Carrying value: Other financial liabilities AED'000	Carrying value: Total AED'000	Fair value: Level 1 AED'000	Fair value: Level 2 AED'000	Fair value: Level 3 AED'000	Fair value: Total AED'000
Financial assets measured at fair value									
Interest rate swaps used for hedging	5,505	-	-	-	5,505	-	5,505	-	5,505
Other currency and interest rate swaps	-	790	-	-	790	-	790	-	790
	5,505	790	-	-	6,295	-	6,295	-	6,295
Financial assets measured at amortised cost									
Long-term receivables	-	-	33,352	-	33,352	-	-	-	-
Trade and other receivables	-	-	1,032,767	-	1,032,767	-	-	-	-
Due from related parties	-	-	112,630	-	112,630	-	-	-	-
Bank balances and cash	-	-	324,109	-	324,109	-	-	-	-
	-	-	1,502,858	-	1,502,858	-	-	-	-
Financial liabilities measured at fair value									
Commodity derivatives used for hedging	3,701	-	-	-	3,701	-	3,701	-	3,701
Forward exchange contracts	-	426	-	-	426	-	426	-	426
	3,701	426	-	-	4,127	-	4,127	-	4,127
Financial liabilities measured at amortised cost									
Islamic bank financing	-	-	-	679,635	679,635	-	-	-	-
Interest bearing bank financing	-	-	-	1,073,367	1,073,367	-	-	-	-
Trade and other payables	-	-	-	681,207	681,207	-	-	-	-
Due to related parties	-	-	-	49,514	49,514	-	-	-	-
	-	-	-	2,483,723	2,483,723	-	-	-	-

33. Financial instruments (continued)

During the current and previous years, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Risk management framework

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group’s senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by the Internal Control department. Internal control undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

As part of the application of the risk management policies, senior management is also responsible for development and implementation of controls to address operational risks arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors arising from legal and regulatory requirements, political and economic stability in the jurisdictions that the Group operates and generally accepted standards of corporate behavior.

The Group's non-derivative financial liabilities comprise bank borrowings, trade and other payables (excluding advances to suppliers) and amounts due to related parties. The Group has various financial assets such as trade and other receivables, bank balances and deposits and amounts due from related parties.

33. Financial instruments (continued)

Risk management framework (continued)

Due to the political situation in Iran and the imposition of stricter financial and trade sanctions and oil embargo, the movement of funds through banking channels from Iran has been restricted. Management continues to assess and monitor the implications of such changes on the business. Based on its review, management is of the view that the Group will be able to recover its investment in Iran and accordingly is of the view that no allowance for impairment is required to be recognized in these consolidated financial statements as at reporting date.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, amount due from related parties and balances with banks.

Exposure to credit risk

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

	2019	2018
	AED'000	AED'000
Long-term receivables	**65,724**	33,352
Trade and other receivables (excluding advances and prepayments)	**998,801**	1,032,767
Due from related parties	**37,363**	112,630
Cash at bank	**381,389**	322,440
	1,483,277	1,501,189

Trade and other receivables and amount due from related parties

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, as these factors may have an influence on credit risk. The Group's ten largest customers account for 23.8% (2018: 21.5%) of the outstanding gross trade receivables as at 31 December 2019. Geographically the credit risk is significantly concentrated in the Middle East and Asian regions.

The Group's management has established a credit policy under which each new customer is analyzed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from senior Group management. These limits are reviewed periodically.

In monitoring credit risk, customers and related parties are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and evidence of previous financial difficulties.

33. Financial instruments (continued)

Credit risk (continued)

The maximum exposure to credit risk (trade and other receivables and amount due from related parties) at the reporting date by geographic region and operating segments was as follows.

	2019 AED'000	2018 AED'000
Middle East (ME)	**653,396**	699,757
Europe	**87,602**	99,602
Asian countries (Other than ME)	**224,001**	245,640
Other regions	**136,889**	133,750
	1,101,888	1,178,749
Trading and manufacturing	**1,003,507**	1,101,046
Other industrial	**37,580**	32,031
Others	**60,801**	45,672
	1,101,888	1,178,749

Balances with banks

The Group limits its exposure to credit risk by placing balances with international and local banks. Given the profile of its bankers, management does not expect any counter party to fail to meet its obligations. The bank balances are held with the banks and financial institutions of repute.

Impairment of cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings which are denominated in a currency other than the respective functional currencies of the Group entities. The entities within the Group which have AED as their functional currency are not exposed to currency risk on transactions denominated in USD as AED is currently informally pegged to USD at a fixed rate. The currencies giving rise to this risk are primarily EURO and GBP.

The Group enters into forward exchange contracts to hedge its currency risk, generally with a maturity of less than one year from the reporting date. The Group also enters currency swap arrangements with a maturity of more than 1 year.

Interest on borrowings is denominated in the currency of the respective borrowing, generally, borrowings are denominated in currencies which match the cash flows generated by the underlying operations of the Group.

33. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk is as follows:

	GBP '000	EUR '000
31 December 2019		
Trade and other receivable (including due from related parties)	**10,708**	**38,487**
Cash and bank balances	**1,038**	**1,849**
Trade and other payables	**(3,914)**	**(17,119)**
Bank borrowings	**(6,439)**	**(9,696)**
Derivative – currency swap / forward exchange contracts	**(1,000)**	**(8,000)**
Net consolidated statement of financial position exposure	**393**	**5,521**

	GBP '000	EUR '000
31 December 2018		
Trade and other receivable (including due from related parties)	11,254	39,365
Cash and bank balances	778	1,719
Trade and other payables	(1,995)	(17,713)
Bank borrowings	-	(13,099)
Derivative – currency swap / forward exchange contracts	(9,250)	(7,000)
Net consolidated statement of financial position exposure	787	3,272

The following are exchange rates applied during the year:

	Reporting date			
	Spot rate		Average rate	
	2019	2018	**2019**	2018
Great Britain Pound (GBP)	**4.871**	4.686	**4.688**	4.897
Euro (EUR)	**4.118**	4.213	**4.111**	4.139

Sensitivity analysis

A strengthening (weakening) of the AED, as indicated below, against the EUR and GBP by 5% at 31 December would have increased (decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchange variances that the Group considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecast sales and purchases.

33. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

	Strengthening		Weakening	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
	---AED'000---			
31 December 2019				
GBP	**(96)**	**-**	**96**	**-**
EURO	**(1,137)**	**-**	**1,137**	**-**
31 December 2018				
GBP	(184)	-	184	-
EURO	(689)	-	689	-

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt financings with floating interest/profit rates.

The Group's policy is to manage its financing cost using a mix of fixed and floating interest/profit rate. To manage this, from time to time the Group enters into interest rate swaps, whereby the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, 69.4% (2018: 70.4%) of the Group's term financings are at a fixed rate of interest.

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

	2019	2018
	AED'000	AED'000
Fixed rate instruments		
Financial asset		
Fixed deposits	**207,599**	138,966
Financial liability		
Bank borrowings	**1,220,086**	1,234,733
Due to related parties	**4,000**	4,000
Variable rate instruments		
Financial liability		
Bank borrowings	**537,217**	518,269

Fair value sensitivity analysis for fixed rate instruments

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

33. Financial instruments (continued)

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp increase AED'000	**100bp decrease AED'000**
31 December 2019		
Financial liability		
Variable instruments	**(5,372)**	**5,372**
31 December 2018		
Financial liability		
Variable instruments	(5,183)	5,183

Commodity price risk

Commodity price risk in the Group primarily arises from price fluctuations of Brent crude oil. The Group entered into derivative transactions to limit these risks. Hedging activities are evaluated regularly to align with Group expectations about the price changes and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

Commodity options

In the current year, the Group has designated certain commodity options as a cash flow hedge of highly probable purchases. Because the critical terms, i.e. the quantity, maturity and observation period of the commodity option and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the intrinsic value of the commodity option and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the price of the underlying commodity.

The main potential source of hedge ineffectiveness is the effect of the counterparty and the Group's own credit risk on the fair value of the option contracts, which is not reflected in the fair value of the hedged item and circumstances in which the forecast transaction will happen earlier or later than originally expected.

Commodity price sensitivity analysis

If the commodity prices had been 5 per cent higher (lower) as of December 2019, profit after tax would have been AED 3.59 million (2018: AED 9.18 million) lower (higher).

33. Financial instruments (continued)

Market risk (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out below.

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group limits its liquidity risk by ensuring bank facilities are available. The Group's credit terms require the amounts to be received within 90-180 days from the date of invoice. Trade payable are normally settled within 45-90 days of the date of purchase.

Typically, the Group ensures that it has sufficient cash in hand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

The following are the remaining contractual maturities of the Group's financial liabilities at the reporting dates, including estimated interest/profit payments:

		---------------------Contractual cash flows-------------------			
	Carrying amount AED'000	**Total AED'000**	**0-1 year AED'000**	**1-2 year AED'000**	**More than 2 years AED '000**
At 31 December 2019					
Non-derivative financial liabilities					
Bank borrowings	**1,757,303**	**(1,869,428)**	**(820,867)**	**(403,974)**	**(644,587)**
Trade and other payables	**602,197**	**(602,197)**	**(602,197)**	**-**	**-**
Due to related parties	**38,340**	**(38,340)**	**(38,340)**	**-**	**-**
	2,397,840	**(2,509,965)**	**(1,461,404)**	**(403,974)**	**(644,587)**
Derivative financial liabilities					
Forward exchange contracts	**925**	**(925)**	**(925)**	**-**	**-**
Other currency and interest rate swaps	**14,708**	**(17,219)**	**(7,081)**	**(5,899)**	**(4,239)**
	15,633	**(18,144)**	**(8,006)**	**(5,899)**	**(4,239)**

33. Financial instruments (continued)

Market risk (continued)

Liquidity risk (continued)

	Carrying amount AED'000	Total AED'000	----Contractual cash flows---- 0-1 year AED'000	1-2 year AED'000	More than 2 years AED '000
At 31 December 2018					
Non-derivative financial liabilities					
Bank borrowings	1,753,002	(1,899,380)	(742,365)	(400,050)	(756,965)
Trade and other payables	681,207	(681,207)	(681,207)	-	-
Due to related parties	49,514	(49,514)	(49,514)	-	-
	2,483,723	(2,630,101)	(1,473,086)	(400,050)	(756,965)
Derivative financial liabilities					
Commodity derivative used for hedging	3,701	(3,772)	(2,902)	(870)	-
Forward exchange contracts	426	(426)	(426)	-	-
	4,127	(4,198)	(3,328)	(870)	-

Equity risk

The Group is not significantly exposed to equity price risk.

Capital management

The Group's policy is to maintain a strong capital base to sustain future development of the business and maintain investor and creditor confidence. A balance between the higher returns and the advantages and security offered by a sound capital position, is maintained.

The Group manages its capital structure and adjusts it in light of changes in business conditions. Capital comprises share capital, reserves, retained earnings and non-controlling interests and amounts to AED 2,665 million as at 31 December 2019 *(2018: AED 2,714 million)*. Debt comprises Islamic and interest bearing loans and equity includes all capital and reserves of the Group that are managed as capital.

The debt equity ratio at the reporting date was as follows:

	2019 AED'000	2018 AED'000
Equity	**2,664,572**	2,714,109
Debt	**1,757,303**	1,753,002
Debt equity ratio	**0.66**	0.65

There was no change in the Group's approach to capital management during the current year. The Group is not subject to externally imposed capital requirements.

34. Segment reporting

Basis for segmentation

The Group has made some minor classification changes to its segment reporting during the year to better reflect operational results and the comparatives have been reclassified accordingly.

The Group has broadly three reportable segments as discussed below, which are the Group's strategic business units. The strategic business units operate in different sectors and are managed separately because they require different strategies. The following summary describes the operation in each of the Group's reportable segments:

Ceramics products	includes manufacture and sale of ceramic wall and floor tiles, gres porcellanato, bath-ware and table ware products.
Other industrial	includes manufacturing and distribution of power, paints, plastics, mines, chemicals, and faucets.
Others	includes security services, material movement, real estate, construction projects and civil works.

34. Segment reporting (continued)

Information about the reportable segments

Information regarding each reportable segment is set out below. Segment profit (loss) before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of respective segments relative to other entities that operate in the same industries.

	Ceramic products AED'000	**Other industrial AED'000**	**Others AED'000**	**Elimination AED'000**	**Total AED'000**
At 31 December 2019					
External revenue	**2,435,884**	**118,320**	**20,329**	**-**	**2,574,533**
Intersegment revenue	**438,207**	**96,238**	**2,361**	**(536,806)**	**-**
Segment revenue	**2,874,091**	**214,558**	**22,690**	**(536,806)**	**2,574,533**
Segment profit	**214,474**	**23,593**	**5,976**	**(38,887)**	**205,156**
Segment EBITDA	**483,250**	**28,560**	**13,224**	**(42,208)**	**482,826**
Interest/profit income	**7,166**	**117**	**2,391**	**(3,462)**	**6,212**
Interest/profit expense	**84,407**	**315**	**54**	**(3,731)**	**81,045**
Depreciation and amortization	**165,617**	**3,329**	**9,715**	**(2,784)**	**175,877**
Share of profit in equity accounted investees	**(444)**	**14,074**	**-**	**-**	**13,630**
Segment assets	**6,844,498**	**293,737**	**469,499**	**(2,120,961)**	**5,486,773**
Segment liabilities	**3,539,268**	**80,182**	**109,749**	**(906,998)**	**2,822,201**

	Ceramic products AED'000	Other industrial AED'000	Others AED'000	Elimination AED'000	Total AED'000
At 31 December 2018					
External revenue	2,592,714	106,043	29,755	-	2,728,512
Intersegment revenue	438,470	129,127	1,856	(569,453)	-
Segment revenue	3,031,184	235,170	31,611	(569,453)	2,728,512
Segment profit	227,638	18,110	20,388	(41,042)	225,094
Segment EBITDA	446,445	23,802	13,446	(40,519)	443,174
Interest/profit income	5,732	51	1,918	(2,473)	5,228
Interest/profit expense	75,282	33	-	(1,950)	73,365
Depreciation and amortization	138,772	3,691	13,830	-	156,293
Share of profit in equity accounted investees	(520)	10,863	(794)	-	9,549
Segment assets	6,876,273	279,378	471,484	(2,130,095)	5,497,040
Segment liabilities	3,510,326	68,869	117,305	(913,569)	2,782,931

EBITDA is earnings for the period before net interest expense, net profit expense on Islamic financing, income tax expense, depreciation, amortization and gain or loss on sale of assets.

34. Segment reporting (continued)

Geographic information

The ceramic products, contracting and other industrial segments are managed on a worldwide basis, but manufacturing facilities are primarily located in the UAE, India, Iran and Bangladesh.

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. Investment in equity accounted investees is presented based on the geographical location of the entity holding the investment.

	2019 AED'000	2018 AED'000
Revenue		
Middle east (ME)	**1,269,074**	1,328,267
Europe	**425,281**	439,610
Asian countries (other than ME)	**721,767**	807,652
Other	**158,411**	152,983
	2,574,533	2,728,512
Non-currents assets		
Middle East (ME)	**2,152,726**	2,130,368
Asian countries (other than ME)	**384,861**	383,070
Other	**132,005**	80,012
	2,669,592	2,593,450

Reconciliation of reportable segment

	2019 AED'000	2018 AED'000
Revenues		
Total revenue for reportable segments	**3,111,339**	3,297,965
Elimination of intersegment revenue	**(536,806)**	(569,453)
Consolidated revenue	**2,574,533**	2,728,512
Profit		
Total profit or loss for reportable segments	**244,043**	266,136
Elimination of inter-segment profits	**(38,887)**	(41,042)
Consolidated profit	**205,156**	225,094
Assets		
Total assets for reportable segment	**5,446,731**	5,454,434
Equity accounted investees	**40,042**	42,606
Consolidated total assets	**5,486,773**	5,497,040
Other material items		
Interest/profit income	**6,212**	5,228
Interest/profit expense	**81,045**	73,365
Depreciation and amortization	**175,877**	156,293

35. Subsidiaries and equity accounted investees

	Name of the entity	Country of incorporation	Ownership interest **2019**	2018	Principal activities
A	**Subsidiaries of R.A.K. Ceramics P.J.S.C.**				
	RAK Ceramics (Bangladesh) Limited	Bangladesh	**68.13%**	68.13%	Manufacturers of ceramic tiles and sanitary ware
	RAK (Gao Yao) Ceramics Co. Limited	China	**100%**	100%	Manufacturers of ceramic tiles
	RAK Ceramics PJSC Limited	Iran	**100%**	100%	Manufacturers of ceramic tiles
	RAK Ceramics India Private Limited	India	**100%**	100%	Manufacturers of ceramic tiles and sanitary ware
	Elegance Ceramics LLC	UAE	**100%**	100%	Manufacturers of ceramic tiles
	RAK Ceramics Australia PTY Limited	Australia	**100%**	100%	Trading in ceramic tiles
	RAK Bathware Pty Limited	Australia	**100%**	100%	Trading in sanitary ware
	Acacia Hotels LLC	UAE	**100%**	100%	Lease of investment property
	RAK Ceramics Holding LLC	UAE	**100%**	100%	Investment company
	Al Jazeerah Utility Services LLC	UAE	**100%**	100%	Provision of utility services
	Ceramin FZ LLC	UAE	**100%**	100%	Manufacturing, processing import & export of industrial minerals
	Al Hamra Construction Company LLC	UAE	**100%**	100%	Construction company
	RAK Porcelain LLC (refer note (iv) below)	UAE	**50%**	50%	Manufacturing of porcelain tableware
	RAK Ceramics Company LLC	Saudi Arabia	**100%**	100%	Trading in ceramic tiles and sanitary ware

35. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2019	2018	Principal activities
A	**Subsidiaries of R.A.K. Ceramics P.J.S.C. (continued)**				
	RAK Ceramics UK Limited	UK	**100%**	100%	Trading in ceramic tiles and sanitary ware
	RAK Ceramics GmbH	Germany	**100%**	100%	Trading in ceramic tiles and sanitary ware
	ARK International Trading Company Limited	Saudi Arabia	**100%**	100%	Trading in ceramic tiles
	RAK Saudi LLC	Saudi Arabia	**100%**	100%	Trading in ceramic tiles and sanitary ware items
B	**Subsidiaries of RAK Ceramics Bangladesh Limited**				
	RAK Power Private Limited	Bangladesh	**100%**	100%	Power generation for captive consumption
	RAK Securities and Services Private Limited	Bangladesh	**100%**	100%	Providing security services
C	**Subsidiaries of RAK Ceramics Holding LLC**				
	RAK Paints LLC	UAE	**51%**	51%	Manufacturers of paints and allied products
	RAK Universal Plastics Industries LLC (refer note (i) below)	UAE	**66%**	66%	Manufacturers of pipes
D	**Subsidiaries of RAK Ceramics UK Limited**				
	RAK Distribution Europe SARL	Italy	**100%**	100%	Trading in ceramic tiles and sanitary ware
E	**Subsidiary of RAK Paints LLC**				
	Altek Emirates LLC (refer note (ii) below)	UAE	**99%**	99%	Manufacturers of paints and adhesive products

35. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2019	2018	Principal activities
F	**Subsidiaries of Ceramin FZ LLC**				
	Ceramin India Private Limited	India	**100%**	100%	Extraction, distribution and and export of clay and other minerals
	Ceramin SDN BHD	Malaysia	**100%**	100%	Extraction, distribution and export of clay other minerals
	Feldspar Minerals Company Limited (refer note (iii) below)	Thailand	**40%**	40%	Extraction, distribution and export of clay and other minerals
G	**Subsidiary of Elegance Ceramics LLC**				
	Venezia Ceramics	UAE	**100%**	100%	General trading
H	**Subsidiary of RAK Porcelain LLC**				
	RAK Porcelain Europe S.A.	Luxemburg	**91%**	91%	Import and Export of porcelain tableware
	Restofair RAK LLC	UAE	**47%**	47%	Contracting of furnishing the Public firms
I	**Subsidiary of RAK Porcelain Europe S.A.**				
	RAK Porcelain USA Inc.	USA	**100%**	100%	Trading of tableware
J	**Subsidiaries of RAK Ceramics India Private Limited**				
	Gris Ceramics Limited Liability Partnership	India	**51%**	51%	Manufacturing of ceramics tiles
	Gryphon Ceramics Private Limited	India	**51%**	51%	Manufacturing of ceramics tiles
K	**Joint ventures of R.A.K. Ceramics P.J.S.C.**				
	RAK Chimica LLC (refer note 11(i))	UAE	**55.55%**	55.55%	Manufacturing of chemicals used in ceramic industries
	Kludi RAK LLC (refer note 11(i))	UAE	**51%**	51%	Manufacturing of water tap faucets etc.

35. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2019	2018	Principal activities
L	**Associate of Ceramin FZ LLC**				
	Palang Suriya Company Limited	Thailand	**40%**	40%	Extraction, distribution and export of clay and other minerals
M	**Joint ventures of RAK Ceramics Australia PTY LTD**				
	Massa Imports Pty Limited	Australia	**50%**	50%	Trading in ceramic tiles
N	**Joint ventures of RAK Ceramics Holding LLC**				
	RAK Watertech LLC (refer note 11(i))	UAE	**51%**	51%	Waste-water treatment works
O	**Subsidiary of Palang Suriya Company Limited**				
	Feldspar Minerals Co. Limited	Thailand	**60%**	60%	Extraction, distribution and export of clay and other minerals

(i) The Group holds 66% equity interest in RAK Universal Plastics Industries LLC through RAK Ceramics Holding LLC. In addition to this, RAK Watertech LLC in which RAK Ceramics Holding LLC holds 51% equity interest, also has a 24% equity interest in RAK Universal Plastics Industries LLC. Accordingly, the Group effectively holds 78.24% equity interest in RAK Universal Plastics Industries LLC.

(ii) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the remaining 1% equity interest is held by RAK Ceramics Holding LLC, a fully owned subsidiary of the Group. Accordingly, the entity has been treated as fully owned subsidiary of the Group.

(iii) Ceramin FZ LLC holds a 40% equity interest in Feldspar Minerals Company Limited. In addition to this, Palang Suriya Company Limited in which Ceramin FZC holds a 40% equity interest, also has 60% equity interest in this entity. Accordingly, the Group effectively holds a 64% equity interest in Feldspar Minerals Company Limited.

(iv) RAK Porcelain has been considered as a subsidiary since the Group exercises has ability to use its power to affects its returns.

36. Significant accounting estimates and critical accounting judgements

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

Critical accounting judgements

Business model assessment

Classification and measurement of financial assets depends on the results of the Solely Payments of Principal and Interest (SPPI) test and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment requires judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model, resulting in a prospective change to the classification of those assets. No such changes were required during the years presented.

Key sources of estimation uncertainty

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

Estimated useful life and residual value of property, plant and equipment and investment properties

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

Fair valuation of investment properties

The Group follows the cost model per IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Fair value of investment properties is disclosed in note 18. The fair values for buildings has been determined by taking into consideration both income/profits and comparable sales approach having regard to market rental and transactional evidence. Fair values for land has been determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. Should the key assumptions change, the fair value of investment property may significantly change and result in an impairment of the investment property.

36. Significant accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Allowance for obsolete inventories and net realizable value write down on inventories

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating units to which goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a growth rate, which management believes approximates the long-term growth rate for the industry in which the cash generating unit operates.

Key assumption used for the calculation of value-in-use

The calculation of value-in-use is sensitive to the following assumptions:

Growth rate

Growth rates are based on management's assessment of the market share having regard to the forecast growth and demand for the products offered. Growth rates of 8% -13% per annum have been applied in the calculation.

Profit margins

Profit margins are based on management's assessment of achieving a stable level of performance based on the approved business plan of the cash generating unit for the next five years.

Discount rates

Management has used discount rate of 8% - 15% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

36. Significant accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Calculation of loss allowance

When measuring expected credit losses the Group 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.

If the ECL rates on trade receivables between 91 and 180 days past due had been 5 per cent higher (lower) as of December 2019, the loss allowance on trade receivables would have been AED 0.41 million (2018: AED 0.26 million) higher (lower).

If the ECL rates on trade receivables between 181 and 360 days past due had been 5 per cent higher (lower) as of December 2019, the loss allowance on trade receivables would have been AED 0.82 million (2018: AED 0.58 million) higher (lower).

37. Comparative information

The performance rebates were incorrectly classified as part of selling expenses, instead of netting-off against revenue. The following transactions in the consolidated statement of profit or loss for the prior year have been adjusted to conform to the current year's presentation. This do not affect previously reported profit or equity.

	As previously reported at 31 December 2018 AED'000	**Adjustment AED'000**	**As adjusted at 31 December 2018 AED'000**
Revenue	2,776,185	(47,673)	2,728,512
Selling and distribution expenses	(451,352)	47,673	(403,679)

38. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 11 February 2020.