Depa PLC and its subsidiaries

Directors' report and consolidated financial statements for the year ended 31 December 2019

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Directors’ report

Board of director’s report

The Board of Directors present their report and audited financial statements of Depa PLC (the “Company”) and its subsidiaries (together referred to as the “Group” or “Depa”) for the year ended 31 December 2019.

Principal activities

The Group specialises in the luxury fit-out sector, focusing primarily on hospitality, commercial and residential property developments, and also includes the airport, retail, yacht, theming and specialist fit-out sectors. Additionally, the Group is a provider of manufactured products and procurement services, with a primary focus on customised furniture, fixtures and equipment, much of which is produced in its in-house facilities.

Financial and operational review and results

Operational review

The Group faced a challenging year in 2019 with disappointing financial performance a reflection. Despite this, the Group continued to secure key projects across a wide range of sectors in its global addressable market and successfully deliver significant projects for its clients including major hospitality projects in Dubai and Singapore, and a number of luxury retail packages across the UAE.

The Group’s backlog position remains diverse. Vedder, the Group’s European key business unit, announced the award of three yacht projects in the second half of 2019, each worth more than AED 100 million, while Depa Interiors secured a major social infrastructure package worth in excess of AED 110 million. Deco Group continues to secure luxury retail projects in the Middle East while in Asia, DSG secured major works in Singapore, Thailand, Myanmar and China.

With a view to maximising long-term, sustainable shareholder value, the Group continued with its disposal plans of its non-core assets; including the disposals of an investment property in Dubai and its interests in both The Parker Company and Lindner Middle East. These disposals are major milestones in the Group’s non-core assets disposal programme which aims to streamline the Group’s structure and most importantly allow management to focus on the Group’s core business.

Following management’s Group-wide operational review during the first half of 2019, the Group’s consolidated a significant portion of its UAE based management functions to its factory located in DIP, Dubai. This relocation, along with other key initiatives has allowed the Group to realise cost-savings during the latter part of 2019. The operational review also encompassed a deep dive into the Group’s project schedules and receivable balances. In light of the more difficult trading environment that the Middle East and Asia businesses were facing, provisions were taken against certain receivable balances, impacting the Group’s performance in FY2019.

As a consequence of DSG’s poor financial performance, some difficult decisions have had to be taken. DSG as a group is undergoing an operational, organisational and financial restructuring. Its Singapore and Malaysian entities have filed for creditor relief under their respective regulatory regimes and significant cost saving initiatives have been implemented across the group.

In light of the challenges that the Group is facing including the impact of Covid-19 on its operations, Depa will continue to take swift action to reduce its cost base and ensure its financial sustainability. In addition, Depa is undertaking a Group-wide strategic review where our operational activities, the fit of each of our key business units into the Group, our funding structure and our geographical footprint will each be assessed.

Vedder

Vedder, the Group’s European key business unit, specialising in the superyacht, residence fit-out and private jet market, generated revenue of AED 362.1 million and profit of AED 21.5 million, a decrease in revenue of AED 16.7 million or 4% on 2018 (AED 378.8 million) and a decrease in profit of AED 11.4 million on 2018 (AED 32.9 million).

Vedder (continued)

Vedder's revenue increased slightly from 2018 to 2019 in Euro with the decrease in Dirham due to the depreciation of the Euro in 2019 compared to 2018. Vedder delivered an EBIT margin of 8.5% (FY2018: 12.4%). Vedder's 2019 results were impacted by a warranty expense, redundancy costs and the settlement of a legal matter totalling AED 5.5 million. These items are non-recurring in nature.

During 2019 Vedder secured three interior fit-out packages for new-build superyachts each worth more than AED 100 million. The award of these significant packages from repeat clients is testament to Vedder's unparalleled project delivery, timely execution and quality craftsmanship.

Vedder has also begun to increase its focus on the exterior and refit sectors, which along with the expansion of the Lüdinghausen facilities will further facilitate Vedder's continued growth.

Depa Interiors

Depa Interiors is the Group's Middle Eastern business providing fit-out services to the hospitality, residential, commercial, and transport and civil infrastructure sectors. Depa Interiors generated revenue of AED 545.1 million (2018: AED 656.2 million) and a loss of AED 160.5 million (2018: AED 25.4 million profit).

In light of the more difficult trading environment in the Middle East, provisions of AED 81.0 million were recorded in relation to receivable balances which have had a significant negative impact on 2019 financial performance. A revision to the expected credit loss model also resulted in an additional provision of AED 16.1 million. Depa Interiors will continue to pursue all of its contractual entitlements rigorously whether or not the balance has been provided for. Additionally, a number of Depa Interiors' projects faced significant delays, primarily in UAE and KSA. The consequence of four delayed projects has had a AED 59.3 million impact on Depa Interiors' profit for the year and also negatively impacted revenue.

Depa Interiors has continued to focus on project execution and has successfully delivered a number of projects during 2019 including a major hospitality project and a major commercial project in Dubai.

Depa Interiors has further diversified its backlog securing a commercial office fit-out package for the new headquarters of a leading UAE airline, an iconic museum package, and a mixed use development package in Dubai, each worth more than AED 100 million.

Deco Group

Middle East-based Deco Group comprises Deco, which is focused on the retail and commercial fit-out sector; carpentry and joinery experts Eldiar; and Carrara, which supplies and installs premium marble, stone and granite.

In 2019 Deco Group generated revenue of AED 226.8 million (2018: AED 251.6 million) and a loss of AED 27.5 million (2018: AED 22.4 million profit). 2018 profit was positively impacted by the sale of its leasing rights as part of Carrara's factory consolidation plan (AED 4.4 million), while 2019 was negatively impacted by delays on a select number of Eldiar projects and costs relating to the restructuring of Eldiar's joinery facilities in Abu Dhabi.

Deco continued its long-term relationship with several major luxury retailers, securing and delivering projects for Chanel, Louis Vuitton, Dior, Christian Louboutin and Valentino within the year. Carrara has achieved strong progress on its Dubai metro expansion project and was awarded an additional package during 2019.

DSG

Depa owns 90% of DSG which is listed on the Singaporean Stock Exchange and operates across Asia. DSG, delivered revenue of AED 231.0 million (2018: AED 454.7 million) and a loss of AED 227.0 million (2018: AED 71.5 million). DSG's revenue has decreased mainly due to lower revenue recognised in the Singapore, Malaysia and manufacturing business units. DSG's 2019 financial results were also negatively impacted by increases in expected project costs and foreseeable losses. In addition, higher levels of provisions for receivables AED 18.6 million (FY2018: AED 2.3 million) further impacted the financial performance.

Depa increased its board participation in DSG during 2019 through the appointment of two Depa executives. In addition, in December 2019, DSG entered into a loan agreement with Depa United Group PJSC for an unsecured loan of up to an aggregate amount of AED 20 million to support its ongoing operations. Additionally, DSG appointed a Chief Restructuring Officer and Steven Salo (Depa Group's Chief Financial Officer) as Interim Chief Executive Officer in order to oversee the restructuring of DSG. Subsequent to these appointments, DSG's Singaporean and Malaysian entities have filed for creditor relief under their respective regulatory regimes and significant cost saving initiatives have been implemented across its operations. The restructuring of DSG comprises three key components with all underway: operational, organisational and financial.

Backlog

Depa's backlog stands at AED 1,842 million on 31 December 2019 following a number of major contract awards, including a large commercial fit-out project and a large social infrastructure project in the Middle East, three significant superyacht interior fit-out projects and a number of luxury retail fit-outs for repeat clients

Outlook

The Group-wide outlook is challenging. Whilst Depa's European business continues to benefit from a strong market and its market leading position, the market in the Middle East holds structural challenges, and in Asia DSG is in the midst of a restructuring exercise.

Covid-19 presents its own set of challenges for the Group with a number of countries' operations affected by lock-downs. Covid-19 will undoubtedly adversely affect the Group's FY2020 project awards, financial performance and liquidity position. Depa has already seen its banks take a more cautious approach to lending in addition to developers delaying project awards and clients holding payment. Depa's management will continue to seek to address the challenges presented by this global issue by taking swift and decisive action to reduce its cost base globally.

Financial performance

During the twelve months to 31 December 2019, Depa generated revenue of AED 1,375.8 million, a decrease of AED 426.5 million on 2018 (AED 1,802.3 million). 2019 revenue was negatively impacted by lower revenue recognition in DSG and Depa Interiors with Depa Interiors' reduction including the impact of the increases to cost to complete on four major delayed projects in UAE and KSA.

Expenses in 2019 decreased by AED 167.1 million to AED 1,595.2 million (2018: AED 1,762.3 million) due in part to the lower revenue generated. Net provisions for doubtful debts and due from construction contract customers of AED 157.7 million (2018: AED 4.5 million) were recorded primarily relating to DSG and Depa Interiors with their collections affected by their respective market, structural and internal challenges. An impairment loss on goodwill and intangibles of AED 35.4 million (2018: AED 129.6 million) was recognised.

In the twelve months to 31 December 2019, associates generated a loss of AED 4.5 million (2018: AED 2.5 million) with net finance expense amounting to AED 13.1 million (2018: AED 10.0 million). The Group recognised an income tax expense of AED 10.8 million in 2019 (2018: AED 18.6 million). Consequently, the Group generated a loss for the period of AED 440.9 million (2018: 125.2 million).

Financial performance **(continued)**

Non-controlling interests amounted to positive AED 31.8 million (2018: AED 1.7 million). DSG's losses were partially offset by stronger results of a number of other non-wholly owned subsidiaries which were disposed of during 2019. As a result, the Group generated net loss after non-controlling interests of AED 409.1 million (2018: AED 123.5 million).

Cash flow

Net cash outflows from operating activities amounted to AED 99.2 million (2018: AED 13.3 million) as a result of the timing of project related receipts and payments and losses at DSG and Depa Interiors. Net cash inflows from investing activities for 2019 amounted to AED 17.0 million (2018: AED 8.6 million) with the Group realising AED 25.6 million from the disposal of TPC and LME net of cash disposed during the period as part of its non-core asset disposal programme.

During 2019, the Group increased its borrowings by AED 34.7 million excluding overdrafts (2018: AED 19.6 million decrease). 2018 included a dividend payment of AED 95.4 million. Net cash inflows from financing activities for the period were AED 13.1 million (2018: outflow AED 132.6 million). Foreign exchange differences resulted in an AED 4.0 million negative movement (2018: AED 11.6 million) in the reported cash and cash equivalents. As a result of the above, the Group ended 2019 with cash and cash equivalents at the 31 December 2019 standing at AED 86.6 million (2018: AED 159.7 million).

Financial position

The Group seeks to ensure that it maintains adequate liquidity to meet its requirements and appropriate working capital facilities via its long-term bank relationships. However, the Group's liquidity position is currently stretched and its banks noticeably taking a more conservative approach to project financing universally. The Group reported year end net cash excluding restricted cash of AED 2.2 million (2018: 110.0 million).

At period end, equity attributable to equity holders of the parent equated to AED 717.1 million (2018: AED 1,140.9 million) and the Group's outstanding ordinary shares at end of 2019 amounted to 614,145,794 (issued ordinary shares of 618,452,753 less 4,306,959 treasury shares).

Risks and uncertainties

The Group faces risks from a range of sources that could have a material impact on our financial commitments and future financial performance. The principal risks are determined via robust assessment considering our risk context. The principal risks facing the company have not materially changed over the year and include the following:

- *Operational risks: w*ork delivery challenges may result in actual costs increasing above previous estimates; failure to continue to win and / or retain contracts on satisfactory terms and conditions; non delivery of projects to client required standards; ineffective management of contracts; serious injury or fatality being sustained by an employee and / or member of the public; and the retention of key management and personnel.
- *Financial and market risks:* reduced access to the financing facilities necessary to fund the business; inability to maintain a sustainable level of financial performance; interest rate and foreign currency risks; failure to collect major receivables from key clients; and liquidity risks.
- *Strategic risks:* adverse changes in economic, regulatory and / or political conditions in the markets in which the Group operates; unforeseen external events and actions which may affect business development and / or project delivery; and material adverse brand and reputational damage.

The Board recognises that certain risk factors that influence the principal risks are outside of the control of management. The Board is satisfied that these risks are being managed appropriately and consistently with the target risk appetite. The set of principal risks should not be considered as an exhaustive list of all the risks the Group faces.

Dividend

No dividend was declared or paid during the current year.

Directors

The Directors who held office during the year, their Committee memberships and functions, as at 31 December 2019 and 2018, were as follows:

Name & Designation	Date of Appointment or Reappointment	Date of Resignation	Committee Memberships
Mr. Mohamed Al Mehairi *Chairman & Non-Executive Director*	25 April 2018	N/A	N/A
Mr. Abdullah Al Turifi *Vice-Chairman & Independent Non-Executive Director*	2 August 2018	N/A	Nomination & Remuneration Committee (Committee Chairman)
Mr. Abdullah Al Mazrui *Non-Executive Director*	25 April 2018	N/A	Investment & Risk Committee (Committee Chairman)
Mr. Khaldoun Al Tabari *Non-Executive Director*	26 May 2016	12 June 2019	N/A
Mr. Marwan Shehadeh *Non-Executive Director*	12 June 2019	N/A	N/A
Mr. Ahmed Ramdan *Independent Non-Executive Director*	12 June 2019	N/A	Nomination & Remuneration Committee (Committee Member); and Investment & Risk Committee (Committee Member)
Mr. Khalifa Al Romaithi *Non-Executive Director*	12 June 2019	N/A	Nomination & Remuneration Committee (Committee Member); and Audit & Compliance Committee (Committee Member)
Mr. Saeed Al Mehairbi *Non-Executive Director*	12 June 2019	N/A	Investment & Risk Committe (Committee Member)
Mr. Hamish Tyrwhitt *Group Chief Executive Officer & Executive Director*	26 May 2016	12 June 2019	N/A
Mr. Edward Quinlan *Independent Non-Executive Director*	4 July 2019	N/A	Audit & Compliance Committe (Committee Chairman)
Mr. Gerard Hutchinson Non-Executive Director	4 July 2019	N/A	N/A

Audit information

Having made the required enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

PricewaterhouseCoopers were appointed as external auditors of the Group for the year ended 31 December 2019. PricewaterhouseCoopers are eligible for reappointment as auditors for 2020 and have expressed their willingness to continue in office.

Mr. Mohamed Al Mehairi
Chairman

Mr. Abdullah Salem Al Turifi
Vice Chairman

21 April 2020

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Depa PLC and its subsidiaries

Consolidated statement of profit or loss

	Note	AED million 2019	2018
Revenue		1,375.8	1,802.3
Expenses	4	(1,595.2)	(1,762.3)
Net provision of allowance for doubtful debts and due from construction contract customers		(157.7)	(4.5)
Impairment loss on goodwill and intangibles		(35.4)	(129.6)
Share of loss from associates	10	(4.5)	(2.5)
Finance income		1.0	0.7
Finance cost		(14.1)	(10.7)
Net - finance cost		(13.1)	(10.0)
Loss before tax		(430.1)	(106.6)
Income tax expense	5	(10.8)	(18.6)
Loss for the year		(440.9)	(125.2)
Attributable to:			
Owners of Depa PLC		(409.1)	(123.5)
Non-controlling interests		(31.8)	(1.7)
		(440.9)	(125.2)
Earnings per share Basic and diluted loss per share (UAE fils)	6	(67)	(20)

The notes on pages 14 to 56 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

	Note	2019	2018
		AED million	
Loss for the year		(440.9)	(125.2)
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(8.1)	(15.8)
Items that will not to be reclassified to profit or loss:			
Actuarial (loss)/gain recognised	20	(1.9)	1.6
Changes in fair value of financial assets at fair value through other comprehensive income	11	(1.0)	-
Other comprehensive loss for the year		(11.0)	(14.2)
Total comprehensive loss for the year		(451.9)	(139.4)
Attributable to:			
Owners of Depa PLC		(420.2)	(136.8)
Non-controlling interests		(31.7)	(2.6)
		(451.9)	(139.4)

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Depa PLC and its subsidiaries

Consolidated statement of financial position

	Note	AED million At 31 December 2019	2018
ASSETS			
Cash and bank balances	29	217.0	381.6
Trade and other receivables	13	605.5	730.1
Due from construction contract customers	14	535.6	627.4
Inventories	15	40.1	41.1
Total current assets		1,398.2	1,780.2
Contract retentions		157.7	137.9
Financial assets at fair value through OCI	11	16.6	17.6
Property, plant and equipment	7	161.4	195.2
Right of use of assets	35	32.9	-
Intangible assets	8	26.5	36.4
Investment properties	12	33.4	36.0
Investment in associates	10	12.4	19.6
Deferred tax assets	5	0.8	1.5
Goodwill	9	104.9	167.7
Total non-current assets		546.6	611.9
Total assets		1,944.8	2,392.1
LIABILITIES			
Trade and other payables	21	955.1	1,074.0
Income tax payable	5	18.8	20.2
Borrowings	19	169.1	60.5
Total current liabilities		1,143.0	1,154.7
Employees' end of service benefits	20	74.6	75.5
Retentions		11.9	11.3
Lease liabilities	35	28.8	-
Deferred tax liabilities	5	0.1	0.1
Borrowings	19	23.4	22.8
Total non-current liabilities		138.8	109.7
Total liabilities		1,281.8	1,264.4
Net assets		663.0	1,127.7
EQUITY			
Share capital	16	908.9	908.9
Share premium	23	172.1	354.1
Treasury shares	17	(12.6)	(16.5)
Statutory reserve	18	60.0	58.6
Translation reserve		(24.7)	(16.5)
Other reserve		(7.6)	(1.0)
Accumulated losses		(379.0)	(146.7)
Equity attributable to owners of Depa PLC		717.1	1,140.9
Non-controlling interests		(54.1)	(13.2)
Net equity		663.0	1,127.7

The consolidated financial statements were approved for issue by the Board of Directors on 21 April 2020 and signed on its behalf by:

Group Chief Executive Officer

Group Chief Financial Officer

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Depa PLC and its subsidiaries

Consolidated statement of changes in equity

AED million

	Share capital	Share premium	Treasury shares	Statutory reserve	Translation reserve	Other reserve	Accumulated losses	Attributable to owners of Depa PLC	Non-controlling interests	Total
At 31 December 2017	904.6	354.1	(16.5)	54.2	(1.6)	(1.4)	103.6	1,397.0	(1.2)	1,395.8
Change in accounting policies (note 12 and 13)	-	-	-	-	-	-	(25.6)	(25.6)	-	(25.6)
At 1 January 2018	904.6	354.1	(16.5)	54.2	(1.6)	(1.4)	78.0	1,371.4	(1.2)	1,370.2
Loss for the year	-	-	-	-	-	-	(123.5)	(123.5)	(1.7)	(125.2)
Other comprehensive income	-	-	-	-	(14.9)	1.6	-	(13.3)	(0.9)	(14.2)
Total comprehensive loss	-	-	-	-	(14.9)	1.6	(123.5)	(136.8)	(2.6)	(139.4)
Transfer to statutory reserve	-	-	-	4.4	-	-	(4.4)	-	-	-
Transactions with owners:										
Dividends paid (note 36)	-	-	-	-	-	-	(95.4)	(95.4)	(6.9)	(102.3)
Employee share scheme	-	-	-	-	-	2.7	-	2.7	-	2.7
New shares issued	4.3	-	-	-	-	(3.9)	(0.4)	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	(1.0)	(1.0)	(2.5)	(3.5)
At 31 December 2018	**908.9**	**354.1**	**(16.5)**	**58.6**	**(16.5)**	**(1.0)**	**(146.7)**	**1,140.9**	**(13.2)**	**1,127.7**
Loss for the year	-	-	-	-	-	-	(409.1)	(409.1)	(31.8)	(440.9)
Other comprehensive loss	-	-	-	-	(8.2)	(2.9)	-	(11.1)	0.1	(11.0)
Total comprehensive loss	-	-	-	-	(8.2)	(2.9)	(409.1)	(420.2)	(31.7)	(451.9)
Transfer to statutory reserve	-	-	-	1.4	-	-	(1.4)	-	-	-
Adjustment to share premium account (note 23)	-	(182.0)	-	-	-	-	182.0	-	-	-
Transactions with owners:										
Employee share scheme	-	-	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1.8)	(1.8)
New shares issued	-	-	3.9	-	-	(3.5)	(0.4)	-	-	-
Acquisition of non-controlling interest (note 32)	-	-	-	-	-	-	(3.4)	(3.4)	2.7	(0.7)
Disposal of non-controlling interests of entities sold (note 31)	-	-	-	-	-	-	-	-	(10.1)	(10.1)
At 31 December 2019	**908.9**	**172.1**	**(12.6)**	**60.0**	**(24.7)**	**(7.6)**	**(379.0)**	**717.1**	**(54.1)**	**663.0**

Consolidated statement of cash flows

	Note	AED million 2019	AED million 2018
Operating activities			
Loss before tax		(430.1)	(106.6)
Adjustments for:			
Depreciation of property, plant and equipment	7	27.7	32.2
Amortisation on right of use of assets		6.6	-
Amortisation and impairment of intangible assets	8	11.7	6.2
Gain on disposal of property, plant and equipment		(0.1)	(0.2)
Finance income		(1.0)	(0.7)
Finance cost		14.1	10.7
Provision on inventory obsolescence	15	2.2	0.9
Net provision on trade receivables, contract retentions and due from construction contract customers		157.7	4.5
Reversal of liabilities no longer required		(22.4)	(39.9)
Change in fair value of investment properties	12	2.6	1.3
Impairment loss on goodwill		29.3	129.6
Impairment of property, plant and equipment	7	2.3	-
Loss on disposal of entities-net		2.8	-
Impairment of investment in associates	10	-	3.7
Provision for share based payments		(0.2)	2.7
Share of loss from associates	10	4.5	2.5
Provision for employees' end of service benefits	20	10.7	10.9
Operating cash flows before payment of employees end of service benefits, taxes and changes in working capital		(181.6)	57.8
Employees' end of service benefits paid	20	(11.9)	(9.9)
Income tax paid		(11.5)	(14.1)
Working capital changes:			
Trade and other receivables		1.3	54.7
Inventories		(2.6)	7.8
Due from construction contract customers		42.2	(158.4)
Contract retentions		0.6	0.2
Retentions		(19.8)	4.1
Trade and other payables		80.2	98.7
Other non-current liabilities		-	(2.0)
Restricted cash		3.9	(52.2)
Net cash used in operating activities		(99.2)	(13.3)

Consolidated statement of cash flows (continued)

	Note	AED million 2019	2018
Investing activities			
Purchase of property, plant and equipment	7	(22.6)	(25.0)
Proceeds from sale of property, plant and equipment		21.1	3.2
Purchase of intangible assets	8	(1.8)	(0.1)
Dividends received from associates	10	2.7	3.2
Acquisition of non-controlling interest (NCI)		(0.7)	(1.8)
(Increase)/decrease in long term fixed deposits		(8.3)	21.4
Proceeds from sale of associates		-	7.0
Proceeds from sale of subsidiaries-net		25.6	-
Finance income received		1.0	0.7
Net cash generated from investing activities		17.0	8.6
Financing activities			
Dividends paid to non-controlling interests		(1.8)	(6.9)
Dividends paid to the shareholders		-	(95.4)
Repayments of lease liabilities		(7.4)	-
Increase/(repayment) of borrowings		34.7	(19.6)
Finance cost paid		(12.4)	(10.7)
Net cash generated from/(used in) financing activities		13.1	(132.6)
Net decrease in cash and cash equivalents		(69.1)	(137.3)
Effect of foreign exchange difference		(4.0)	(11.6)
Cash and cash equivalents at the beginning of the year		159.7	308.6
Cash and cash equivalents at the end of the year	29	86.6	159.7

1. Corporate information

Depa PLC (the "Company"), formerly Depa Limited, is a company limited by shares and registered in accordance with Companies Law – DIFC Law No. 5 of 2018 ("Companies Law").

The Company was incorporated in United Arab Emirates on 25 February 2008. Depa PLC is the management company of Depa United Group P.J.S.C.

The Company and its subsidiaries (together referred to as the "Group") specialises in the luxury fit-out sector, focusing primarily on hospitality, commercial and residential property developments, and also includes the airport, retail, yacht, theming and specialist fit-out sectors. Additionally, the Group is a provider of manufactured products and procurement services, with a primary focus on customised furniture, fixtures and equipment, much of which is produced in its in-house facilities.

The Company's shares are listed on the Nasdaq Dubai.

The address of the Company's registered office is P.O. Box 56338, Dubai, United Arab Emirates.

2. Summary of significant accounting policies

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

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(a) New standards and amendments adopted by the Group

IFRS 16 Leases became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting of this standard.

The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The impact of the adoption and the new accounting policies are disclosed in note 2.26 and note 35.

(b) New standards and amendments not early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

There are no other IFRSs, amendments or IFRIC interpretations that are effective that would be expected to have a material impact on the Group's consolidated financial statements.

2.1.1 Management's assessment of going concern basis

During the year, the Group incurred losses of AED 451.9 million (2018: AED 139.4 million) and have accumulated losses of AED 379.0 million (2018: AED 146.7 million) as at 31 December 2019. The Group also have negative operating cash flows of AED 99.2 million (2018: AED 13.3 million).

In determining the appropriateness of the going concern basis for preparation of these consolidated financial statements, management have considered 12 months cash flow projections from the date of approval of the consolidated financial statements which is dependent on the successful renewal of its banking facilities.

The Group will be able to meet its liabilities and continue its operations without significant curtailment for a period of at least 12 months from the date of signing of the consolidated financial statements and accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2. Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(a) Subsidiaries (continued)

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

A listing of Group subsidiaries is set out in note 24.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

(c) Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the consolidated financial statements under the appropriate headings. For details of the joint operations refer to note 30.

(d) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Depa PLC.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker of the Group is its Chief Executive Officer.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

(c) Group companies

The results and financial positions of all the subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

i. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

ii. income and expenses for each statement of comprehensive income are translated at average exchange rates during the financial year; and

iii. all resulting exchange differences are recognised as a separate component of equity called "translation reserve".

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on sale.

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 at the consolidated statement of financial position date. Exchange differences arising on translation of these items are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Land and buildings	6 -15 years
Machinery, plant and equipment	2 - 15 years
Motor vehicles	4 - 5 years
Furniture and office equipment	3 - 5 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Capital work-in-progress is stated at cost and includes equipment that is being developed for future use. When commissioned, capital work-in-progress is transferred to appropriate category of property, plant and equipment and depreciated in accordance with the Group's policies.

2.6 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost expenditure which are capitalised as and when activities that are necessary to get the investment properties ready for use for the purpose they are intended to. The carrying amount excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value at each reporting period, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.7 Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, amount of any non-controlling interest in the acquired entity and the fair value on the acquisition-date of any previous equity interest in the acquired entity over the fair value of the net identifiable assets at the date of acquisition.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and is carried at cost less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. An impairment loss is recognised when the carrying value of the cash generating unit or group of cash generating units exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Summary of significant accounting policies (continued)

2.8 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The intangible assets with definite useful lives are amortised on the following basis:

Brand name and rights	15 years
Software	3 - 5 years

2.9 Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows ("cash generating units").

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and conditions. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to account for equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition, derecognition and measurement

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

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

2. Summary of significant accounting policies (continued)

2.11 Financial assets (continued)

(b) Recognition, derecognition and measurement (continued)

Financial assets at fair value through other comprehensive income (FVOCI) are carried at fair value. After initial measurement, the Group presents fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

The Group classifies debt instruments at amortised cost using effective interest rate method. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets.

For trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9 "Financial Instruments", which requires expected lifetime losses to be recognised from initial recognition of the receivables and contract assets.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within bank borrowings.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation.

2.18 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

2. Summary of significant accounting policies (continued)

2.19 Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

2.21 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in comprehensive income or directly in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Share-based payments

The Company had an equity settled share-based compensation plan in place, under which the entity receives services from employees as consideration for share awards. In accordance with IFRS 2, "Share-based payments", the cost of share-based payments awarded is charged to the consolidated statement of profit or loss over the performance and vesting periods of the instruments. The cost is based on the fair value of the awards made at the date of grant adjusted for the number of awards expected to vest. Where awards are settled by the new issue of shares, any proceeds received in respect of share options are credited to share capital and share premium. Share awards are granted by the Company to employees of its subsidiaries.

2.23 Employees' end of service benefits

In accordance with labour laws prevailing in the countries in which the Company and its subsidiaries operate, the Group provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2. Summary of significant accounting policies (continued)

2.23 Employees' end of service benefits (continued)

The Group provides post-employment defined benefit plans under several jurisdictions in which the Group operates. These benefits are currently un-funded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in the other reserves in the consolidated statement of changes in equity. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of comprehensive income as past service costs.

The interest cost component is expensed to the consolidated statement of profit or loss and is calculated by applying the discount rate to the balance of the defined benefit obligation. The defined benefit liability comprises the present value of the defined benefit obligations which is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The Group has not currently allocated any assets to such plans.

Payments made to social security institutions in connection with government pension plans in various countries where the Group operates are dealt with as payments to defined contribution plans, where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The Group pays contributions to the social security institutions on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period to which the employees' service relates.

2.24 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand units unless otherwise stated.

2.25 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) Contract revenue and revenue from sale of goods and procurement services

The Group recognises revenue from contracts with customers based on a five step model as set out below:

1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point time or over time.

2. Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(a) Contract revenue and revenue from sale of goods and procurement services (continued)

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore, it meets the criteria to recognise revenue over time and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performance obligation.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Variations which are extension of existing scope of work are accounted for using cumulative catch up adjustments to the cost to complete method of revenue recognition.

Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

A loss is recognised in the consolidated statement of profit and loss when the expected contract cost exceeds the anticipated contract revenue.

The Group recognises two or more contracts entered into at or near the same time with the same customer and account for the contracts as a single contract under IFRS 15 "Revenue from contracts with customers" if one or more of the following criteria are met:

1. The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
3. The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

If the above criteria is met, the arrangements are combined and accounted for as a single arrangement for revenue recognition.

Pre-contract cost of obtaining a contract with a customer is recognised as an asset if those costs are expected to be recovered.

The Group provides complete interior fit out solutions to its customers operating in a wide variety of industries as noted in note 1, therefore, the Group assess whether these arrangements can have single or multiple performance obligations under IFRS 15 "Revenue from contracts with customers" based on the nature of interior solutions being offered under that arrangement.

Factors affecting the conclusion whether an arrangement has single or multiple performance obligations can include (among other factors) customer's expectations from the contract, distinct nature of the products and services and

2. Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(a) Contract revenue and revenue from sale of goods and procurement services (continued)

degree of integration or inter-relation between the various products and services.

Revenue is recognised in the consolidated statement of profit and loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

(b) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) Dividend income

Dividend income is recognised when the rights to receive payment have been established.

(d) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in other income.

2.26 Leases

The Group leases various lands, buildings, offices, warehouses, equipment and cars.

Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not typically impose any covenants.

Until 2018, leases of property and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to statement of profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- 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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received. Where third-party financing is not available, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk of the Group and any other adjustments specific to the lease.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs, and restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment and furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are mutually exercisable and not only by the Group and or the respective lessor.

2. Summary of significant accounting policies (continued)

2.27 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS 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. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company (after adjusting for interest on the convertible bond and other consequential changes in income or expense that would result from the assumed conversion, if any) by the weighted average number of ordinary shares outstanding during the year including the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

3. Critical accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Recognition of revenue from construction contracts

The Group uses recognition of revenue and profit over time based on progress of its project through cost to complete method which requires the Group to estimate the proportion of work performed as a proportion of contract costs incurred for work performed to date to the estimated total contract costs. Since contract costs can vary from initial estimates, the reliance on the total contract cost estimate represents an uncertainty inherent in the revenue recognition process. Individual contract budgets are reviewed regularly with project leaders to ensure that cost estimates are based upon up to date and as accurate information as possible, and take into account any relevant historic performance experience. Effects of any revision to these estimates are reflected in the year in which the estimates are revised.

(b) Construction cost estimates

The Group uses internal quantity surveyors together with project managers to estimate the costs to complete for construction contracts. Factors such as changes in material prices, labour costs, defects liability costs and other costs are included in the construction cost estimates based on best estimates.

(c) Contract variations

Contract variations are recognised as revenue to the extent that it is highly probable that they will result in revenue and a significant reversal in revenue will not occur and which can be reliably measured, this requires the exercise of judgment by management based on prior experience, application of contract terms and relationship with the contract owners.

(d) Recoverability of contract receivables, retentions and amounts due from contract customers

Management has estimated the recoverability of contract receivables, retentions and amount due from customers and has considered the allowance required. Management has estimated the allowance for contract receivables, retentions and amount due from contract customers on the basis of prior experience, the current economic environment, the status of negotiations as well as forward looking estimates at the end of each reporting period. Estimating the amount of the allowance requires significant judgment and the use of estimates related to the amount and timing of estimated losses based on historical loss experience, current disputes, consideration of current economic trends and conditions and contractor/employer-specific factors, all of which may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional allowance for doubtful debts or reversal of excess provisions could be made that could adversely or positively affect earnings or the financial position in future periods.

3. Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

(d) Recoverability of contract receivables, retentions and amounts due from contract customers (continued)

The Group has overdue contract balances for completed projects for which the Group is currently in discussion with the customers for the settlement of the outstanding balances and believes no further provision is required.

Collectively and in relation to the above mentioned projects, the Group is carrying AED 89.6 million (2018: AED 90.8 million) of gross balances in trade and other receivables and due from customers on contract against which the Group is carrying a provision of AED 25.6 million (2018: Nil) in its consolidated financial statements.

(e) Employees' end of service benefits

The cost of the end of service benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexities involved in the valuation and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are set out in note 20.

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value less cost to sell or value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value which necessarily involves making numerous estimates and assumptions regarding revenue growth, operating margins, tax rates, appropriate discount rates and working capital requirements. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material. Refer to note 9 for further details.

(g) Taxes

Management has assessed the tax position in the jurisdictions it operates having regard to the local tax legislation, decrees issued periodically and related bilateral/international treaties and/or conventions.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group records provisions based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the respective Group company's domicile.

3.2 Critical judgements

Joint operations

The Group reports its interests in jointly controlled entities as joint operations when the Group has direct right to the assets, and obligations for the liabilities, relating to an arrangement. In this case it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation. Management has evaluated its interest in its joint arrangements and has concluded them to be joint operations.

4. Expenses

	AED million	
	2019	2018
Sub-contractor costs	573.7	651.7
Personnel costs	496.2	498.0
Material costs	437.3	531.3
Depreciation (note 7)	27.7	32.2
Registration and legal expenses	10.4	6.2
Amortisation on right of use of assets	6.6	-
Amortisation of intangibles (note 8)	5.6	6.2
Loss on disposal of entities (note 31)	2.8	-
Premise rent	2.7	10.6
Changes in fair value of investment properties (note 12)	2.6	1.3
Impairment loss on property, plant and equipment (note 7)	2.3	-
Impairment of investment in associate (note 10)	-	3.7
Reversal of liabilities no longer required (net)	(22.4)	(39.9)
Gain on sale of fixed assets	(0.1)	(0.2)
Other expenses	49.8	61.2
	1,595.2	1,762.3

5. Income tax expense

The Group is subject to taxation on its operations in Singapore, Malaysia, Thailand, Myanmar, Sri Lanka, China, Germany, Qatar, Egypt, Kingdom of Saudi Arabia, United States of America, Jordan, United Kingdom, Hungary, India and Morocco.

(a) Income tax recognised in the consolidated financial statements:

	AED million	
	2019	2018
Current tax expense	10.3	16.6
Deferred tax expenses	0.5	2.0
	10.8	18.6

	AED million	
	2019	2018
Effective tax rate from taxable operations		
Profit before tax from operations which are taxable	45.1	103.1
Loss before tax from operations which are taxable	(255.3)	(76.5)
Loss from operations before tax which are not taxable	(219.9)	(133.2)
Loss before tax	(430.1)	(106.6)
Total income tax expense during the year	(10.8)	(18.6)
Effective tax rate on profit from operations which are taxable	24%	18%

The relationship between tax expense and the accounting profit is as follows:

	AED million	
	2019	2018
Loss before tax	(430.1)	(106.6)
Tax at the domestic rates applicable to profits in countries where the Group operates	(11.0)	(2.3)
Tax effect of non-deductible expenses	-	(5.0)
Excess provision in respect of prior year	1.0	(2.2)
Others	(0.8)	(9.1)
	(10.8)	(18.6)

(b) Tax balances

The following is the analysis of tax balances presented in the consolidated statement of financial position:

	AED million	
	2019	2018
Deferred tax assets	0.8	1.5
Deferred tax liabilities	0.1	0.1
Income tax payable	18.8	20.2

6. Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by using weighted average number of ordinary shares outstanding during the year of 614,145,794 shares (2018: 611,586,670 shares), which represent the outstanding shares of 618,452,753 (refer note 16), net of treasury shares of 4,306,959 (refer note 17).

	2019	2018
Basic earnings per share		
Loss attributable to ordinary shareholders in AED million	(409.1)	(123.5)
Weighted average number of ordinary shares outstanding	614,145,794	611,346,252
Basic earnings per share (UAE fils)	(67)	(20)
Diluted earnings per share		
Loss attributable to ordinary shareholders in AED million	(409.1)	(123.5)
Weighted average number of ordinary shares outstanding	614,145,794	611,346,252
Adjustment for share awards	-	3,918,790
Adjusted weighted average number of ordinary shares outstanding	614,145,794	615,265,042
Diluted earnings per share (UAE fils)	(67)	(20)

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

7. Property, plant and equipment

AED million

	Land and buildings	Machinery, plant and equipment	Motor vehicles	Furniture and office equipment	Capital work-in-progress	Total
Cost						
At 1 January 2018	299.2	180.4	15.6	76.8	9.8	581.8
Additions	1.3	8.8	1.1	9.0	4.8	25.0
Disposals	(1.8)	(39.3)	(3.9)	(7.8)	-	(52.8)
Exchange differences	(2.2)	(4.2)	(0.5)	(2.1)	-	(9.0)
At 31 December 2018	296.5	145.7	12.3	75.9	14.6	545.0
Additions	1.7	6.2	0.5	11.4	2.8	22.6
Disposals	(33.3)	(5.7)	(2.0)	(2.5)	-	(43.5)
Transfers	-	-	-	2.7	(2.7)	-
Disposal of entities	-	(4.5)	-	(3.6)	-	(8.1)
Exchange differences	(1.1)	(1.1)	(0.1)	(4.3)	-	(6.6)
At 31 December 2019	263.8	140.6	10.7	79.6	14.7	509.4
Accumulated depreciation and impairment						
At 1 January 2018	166.0	128.7	12.5	58.4	6.6	372.2
Charge for the year	17.1	7.3	1.0	6.8	-	32.2
Disposals	(1.8)	(39.0)	(3.9)	(5.1)	-	(49.8)
Exchange differences	(0.5)	(2.8)	(0.1)	(1.4)	-	(4.8)
At 31 December 2018	180.8	94.2	9.5	58.7	6.6	349.8
Charge for the year	13.0	7.5	1.2	6.0	-	27.7
Disposals	(14.4)	(3.7)	(2.0)	(2.4)	-	(22.5)
Impairment of assets	-	2.2	-	0.1	-	2.3
Disposal of entities	-	(4.2)	-	(2.6)	-	(6.8)
Exchange differences	(0.3)	(1.6)	-	(0.6)	-	(2.5)
At 31 December 2019	179.1	94.4	8.7	59.2	6.6	348.0
Net carrying amount						
At 31 December 2019	84.7	46.2	2.0	20.4	8.1	161.4
At 31 December 2018	115.7	51.5	2.8	17.2	8.0	195.2

8. Intangible assets

	AED million		
	Brand name and rights	Software	Total
Cost			
At 1 January 2018	108.6	62.4	171.0
Additions	-	0.1	0.1
At 31 December 2018	108.6	62.5	171.1
Additions	-	1.8	1.8
At 31 December 2019	108.6	64.3	172.9
Accumulated amortisation and impairment			
At 1 January 2018	66.9	61.6	128.5
Charge for the year	5.8	0.4	6.2
At 31 December 2018	72.7	62.0	134.7
Charge for the year	4.7	0.9	5.6
Impairment	6.1	-	6.1
At 31 December 2019	83.5	62.9	146.4
Net carrying amount:			
At 31 December 2019	25.1	1.4	26.5
At 31 December 2018	35.9	0.5	36.4

During the year, the Group recorded an impairment of AED 6.1 million (2018: Nil) against brand name and rights in relation to DSG and Deco Group.

9. Goodwill

Goodwill has been allocated to the groups of cash-generating units which are the lowest level at which goodwill is monitored for internal management purposes.

Goodwill allocation to the groups of cash-generating units is as follows:

	AED million	
	2019	2018
DSG	-	14.4
Depa Interiors	72.6	72.6
Vedder	32.3	32.3
The Parker Company	-	17.0
Lindner Middle East	-	16.5
Deco Group	-	14.9
	104.9	167.7

(a) Annual test for impairment

The Group has carried out an impairment test for goodwill at year end. For impairment test purposes, the recoverable amount of each group of cash generating units has been estimated and is based on the higher of fair value less cost to sell or value in use calculated using cash flow projections approved by senior management covering a five-year period. Independent experts were employed by the Group to assess the values.

9. Goodwill (continued)

(a) Annual test for impairment (continued)

Management concluded that an impairment loss amounting to AED 29.3 million (2018: AED 129.6 million) should be recorded during the year as a result of a downturn in the performance of DSG and Deco Group.

(b) Key assumptions used

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

- Growth rate; and
- Discount rate.

Growth rate: Estimates are based on historic performance, approved business plan, backlog and prospective projects at 31 December 2019. An average growth rate of approximately 2% (2018: 5%) per annum was used in the estimates.

Discount rate: Average discount rates used throughout the assessment period was 10.9% per annum (2018: 10.9% per annum), reflecting the cash generating units estimated weighted average cost of capital and specific market risk profile and cost of debt. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

(c) Sensitivity to changes in assumptions

With regard to the assessment of recoverable value, management believes that for the carrying value of Depa Interiors and Vedder to materially exceed the recoverable amount there would have to be unreasonable changes to key assumptions. Management considers the chances of these changes occurring to be unlikely.

9.1 Impairment loss

During the year, the Group has estimated the recoverable amount of Operating Segments lower than the carrying amount of net assets by AED 29.3 million. The recoverable amount has been estimated based on value-in-use calculation calculated using cash flow projections.

Others

During the year the Group disposed its investments in The Parker Company Middle East FZ LLC, The Parker Company LLC and Lindner Middle East LLC and accordingly, goodwill related to these entities amounting to AED 33.5 million was derecognised.

10. Investment in associates

Details of the Group's associates are as follows:

Name of associate	Country	Holding % 2019	Holding % 2018	Principal activities
Decolight Trading LLC	United Arab Emirates	45%	45%	Trading
Jordan Wood Industries PLC (JWICO)	Jordan	36%	36%	Manufacturing
Polypod Middle East LLC	United Arab Emirates	40%	40%	Non-operating

Movement in investment in associates during the year is as follows:

	AED million 2019	AED million 2018
At 1 January	19.6	36.0
Share of loss	(4.5)	(2.5)
Impairment of investment in Al Tawasoul Property Development Company	-	(3.7)
Disposal of investment in Al Tawasoul Property Development Company	-	(7.0)
Dividend received	(2.7)	(3.2)
At 31 December	12.4	19.6

No individual associate is material to the Group.

Summarised financial information in respect of the Group's associates is set out below:

	AED million 2019	AED million 2018
Current assets	54.2	64.4
Non-current assets	35.2	29.8
Total assets	89.4	94.2
Current liabilities	43.3	42.0
Non-current liabilities	15.5	2.3
Total liabilities	58.8	44.3
Net assets	30.6	49.9
Group's share of net assets of associates	12.4	19.6
Total revenue	77.1	82.4
Total loss for the year	(13.1)	(7.7)
Group's share of loss and total comprehensive loss of associates	(4.5)	(2.5)

As at 31 December 2019, the Group has assessed that the investments in its associates are not impaired (2018: nil).

There no material contingencies and commitments in Group's associates' financial information.

11. Financial assets at fair value through OCI

	AED million	
	2019	2018
At 1 January	17.6	17.6
Impairment loss	(1.0)	-
At 31 December	16.6	17.6

The Group has equity investments classified as fair value through OCI for which the Group has elected to present changes in respect of the fair value of equity investments in other comprehensive income (OCI). These investments are valued by qualified independent valuation firm based on the market value of the relevant region in which these investments are located. The valuation firm is specialised in valuing these types of investments.

The fair value stated in the report is determined using valuation methods with parameters not based exclusively on observable market data (level 3).

12. Investment properties

	AED million	
	2019	2018
At 1 January	36.0	37.3
Net loss due to change in fair value	(2.6)	(1.3)
At 31 December	33.4	36.0

The Group's investment properties consist of residential villas in Morocco, office space in Dubai and a plot of land in Ajman.

Investment properties are valued by qualified independent property valuation firm based on the market value of the relevant region in which the property is located. The most significant input into this valuation approach is price per square metre. The property valuation firms are specialised in valuing these types of investment properties.

The fair value stated in the report is determined using valuation methods with parameters not based exclusively on observable market data (level 3). Rental income recognised during the year was AED 1.4 million in the consolidated statement of profit or loss (2018: AED 1.4 million).

13. Trade and other receivables

	AED million	
	2019	2018
Trade receivables	362.6	406.9
Contract retentions	160.0	201.6
	522.6	608.5
Less: Allowances for doubtful debts	(214.1)	(116.9)
Net- trade receivable and contract retentions	308.5	491.6
Guarantees encashed by customers	18.2	22.8
Less: Allowances for doubtful debts	(18.2)	(18.2)
Net- guarantee encashed by customers	-	4.6
Amounts due from related parties (refer note 22)	9.9	10.2
Other receivables	79.1	63.9
Other assets at amortised cost:		
Advances to subcontractors and suppliers	178.3	132.7
Prepayments	29.7	27.1
	605.5	730.1

Trade receivables represent amounts due from customers for contract work rendered by the Group and duly certified by the customers.

Contract retentions represent amounts withheld by the customers in accordance with contract terms and conditions. These amounts are to be repaid upon fulfilment of contractual obligations.

The movement in the allowance for trade receivables and contract retentions during the year is as follows:

	AED million	
	2019	2018
At 1 January	116.9	113.3
Impact of adoption of IFRS 9	-	12.8
Charge for the year	112.8	8.4
Disposal of entities	(2.7)	-
Reversal during the year	(4.7)	(8.9)
Amounts written off/transferred – net	(8.2)	(8.7)
At 31 December	214.1	116.9

The average credit period on contract revenue is 90 days. No interest is charged on the trade receivables. Trade receivables of more than 90 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

The Group has concluded expected loss rates for trade receivables and retentions which have been segregated based on credit risk characteristics. The loss allowance was determined for each segment separately and ranges up to 73% depending on the ageing buckets in which the trade receivables and retentions customers fall.

13. Trade and other receivables (continued)

The ageing analysis of trade receivables and retentions is as follows:

	AED million			
	2019		2018	
	Gross	Provision	Gross	Provision
Not yet due	154.3	42.2	173.1	6.6
Due for 0 to 180 days	90.8	3.6	178.1	5.2
Due for 181 to 365 days	72.1	10.0	28.4	6.3
Due for more than 365 days	205.4	158.3	228.9	98.8
	522.6	214.1	608.5	116.9

Provision balance includes AED 74.1 (2018: AED 29.1 million) relating to contract retention receivables.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

The Group has a number of long overdue contract balances for completed projects for which the Group is currently in discussion with the customers for the settlement of the outstanding balances and believes no further provision is required. Collectively and in relation to these specific projects, the Group is carrying AED 89.6 million (2018: AED 90.8 million) of gross balances in trade and other receivables and due from construction contract customers against which the Group is carrying provisions of AED 25.6 million (2018: Nil) in its consolidated financial statements.

14. Due from construction contract customers

	AED million	
	2019	2018
Contracts in progress at end of the reporting period		
Amount due from construction contract customers	627.1	674.0
Less: Allowances for doubtful debts	(91.5)	(46.6)
Amount due from construction contract customers included in current assets	535.6	627.4
Amount due to construction contract customers included in trade and other payables (refer note 21)	(70.8)	(35.6)
	464.8	591.8
Contract cost incurred plus recognised profits less recognised losses to date	7,268.8	7,650.1
Less: Progress billings	(6,804.0)	(7,058.3)
	464.8	591.8

Amount due from construction contract customers includes amounts which have been recognised as revenue and have not been certified or invoiced at the end of the reporting period.

The Group has concluded expected loss rates for amount due from construction contract customers which have been segregated based on credit risk characteristics. The loss allowance was determined ranges up to 24% depending on the ageing buckets in which the amount due from construction contract customers fall.

14. Due from construction contract customers (continued)

The movement in the allowance for amount due from construction contract customers during the year is as follows:

	AED million	
	2019	2018
At 1 January	46.6	27.9
Impact of adoption of IFRS 9	-	12.8
Charge for the year	54.5	9.7
Reversal during the year	(4.9)	(4.7)
Amounts (written off)/transferred	(4.7)	0.9
At 31 December	91.5	46.6

15. Inventories

	AED million	
	2019	2018
Raw materials	51.5	49.8
Finished goods	2.2	3.0
Work in progress	1.9	1.6
	55.6	54.4
Less: Allowances for slow moving inventories	(15.5)	(13.3)
	40.1	41.1

The movement in the allowance for slow moving inventory during the year is as follows:

	AED million	
	2019	2018
At 1 January	13.3	14.6
Charge for the year	2.2	0.9
Amounts written off	-	(2.2)
At 31 December	15.5	13.3

16. Share capital

The share capital as at 31 December 2019 and 2018 comprises of the following:

	AED million	
	2019	2018
Authorised share capital:		
5,000,000,000 ordinary shares of AED 1.47 (US$ 0.40) each	7,350.0	7,350.0
Issued and fully paid share capital:		
618,452,753 ordinary shares (2018: 618,452,753) of AED 1.47 (US$ 0.40) each	908.9	908.9

17. Treasury shares

At 31 December 2019, the number of treasury shares held was 4,306,959 (2018: 6,866,083) amounting to AED 12.6 million (2018: 16.5 million).

The fair value of the treasury shares at the reporting date is AED 1.4 million (2018: AED 6.4 million).

18. Statutory reserve

In accordance with the Articles of Association of certain subsidiaries of the Group, 10% of the profit for the year is transferred to a statutory reserve for each entity. Such transfers are required to be made until the reserve equals 50% of the share capital in each of the subsidiaries. This reserve is not available for distribution, except in circumstances stipulated in the commercial laws applicable to each entity.

19. Borrowings

	AED million	
	2019	2018
Bank overdrafts (note 29)	108.1	33.6
Bank loans	26.9	33.6
Trust receipts and acceptances	57.5	16.1
	192.5	83.3

The borrowings are repayable as follows:		
Within 1 year	169.1	60.5
1- 2 years	3.5	2.8
Later than 2 years	19.9	20.0
	192.5	83.3

Presented in the consolidated statement of financial position as:		
Non-current liabilities	23.4	22.8
Current liabilities	169.1	60.5
	192.5	83.3

(a) Bank overdrafts

The interest rate on the overdrafts varies between EIBOR plus 2.5% to 6.0% per annum (2018: EIBOR plus 2.5% to 6.0%) and the bank base rate plus a margin per annum.

(b) Bank loans

These loans comprise the following:

i. In 2013, the Group obtained two separate loans facilities from a German bank to finance the purchase of fixed assets amounting to EUR 5.5 million and EUR 2.5 million. The loans bear a fixed rate of interest per annum of 2.75% and are payable in 120 monthly instalments, ending 30 May 2023. The outstanding balance of the loan facilities as at 31 December 2019 was AED 16.8 million (EUR 4.1 million) (2018: AED 18.1 million (EUR 4.5 million) and AED 6.6 million (EUR 1.6 million) (2018: AED 7.3 million (EUR 1.7 million)), respectively. The loans are secured by way of a charge on the land.

ii. During 2019, the Group obtained a new loan facility of AED 4.4 million (EUR 1.0 million) from a German bank for operational machinery investment. The loan bears a fixed rate of interest per annum of 1% and is repayable in 24 quarterly instalments. As at 31 December 2019, the outstanding balance of the loan was AED 3.9 million (EUR 0.95 million)

19. Borrowings (continued)

(c) Trust receipts and acceptances

Trust receipts and acceptances are one of the financing facilities used by the Group for imports. The buyer promises to hold the goods received in the name of the bank arranging the financing. The bank retains title to the goods until the debt is settled. The payment terms vary between 30 and 180 days and are subject to interest rates ranging from EIBOR plus 2.5% to 3.5% per annum (2018: EIBOR plus 2.5% to 3.5% per annum) and the bank base rate plus a margin per annum.

(d) Security

The majority of the Group bank facilities are secured by corporate guarantees. However, the German bank loans are secured by land and buildings amounting to AED 22.6 million (2018: AED 32.2 million) and equipment amounting to AED 11.1 million (2018: AED 3.8 million).

(e) Covenants

The Group has various debt covenants related to its facilities which require maintaining certain financial ratios within stipulated limits. These financial ratios address the liquidity and capital structure of the Group.

During the year, DSG was in breach of a number of its financial covenants with commercial banks. There is no impact of these breaches on the classification of bank liabilities disclosed in the consolidated financial statements. The Group is in compliance with all other financial covenants in respect of its banking facilities.

20. Employees' end of service benefits

Provision for employees' end of service benefits is made in accordance with the relevant labour laws assuming the maximum payable based on current remuneration and cumulative years of service at the end of the reporting period.

The following tables summarise the components of net benefit expense recognised in the consolidated statement of profit or loss and other comprehensive income:

	AED million	
	2019	2018
Current service cost	8.2	8.7
Interest cost	2.5	2.2
Net expense recognised in the consolidated statement of profit or loss	10.7	10.9
Net actuarial loss/(gains) recognised in consolidated statement of comprehensive income	1.9	(1.6)

20. Employees' end of service benefits (continued)

Changes in the present value of defined benefit obligations is as follows:

	AED million	
	2019	2018
At 1 January	75.5	76.1
Current service cost	8.2	8.7
Interest cost	2.5	2.2
Benefits paid during the year	(11.9)	(9.9)
Disposal of entities	(1.6)	-
Actuarial loss/(gain) recognised in consolidated statement of comprehensive income	1.9	(1.6)
At 31 December	74.6	75.5

The principal assumptions used in determining the provision for end of service benefit obligations are shown below:

	AED million	
	2019	2018
Discount rate per annum compound	2.8%	3.9%
Salary increase rate per annum compound		
Staff and workers	2.0%	2.0%

Management believes that no reasonably possible change in any of the above key assumptions would have material impact on the amounts disclosed in the consolidated financial statements.

21. Trade and other payables

	AED million	
	2019	2018
Advances received	267.1	465.7
Trade payables	194.9	179.9
Accrued expenses	161.3	134.2
Subcontractor/supplier retentions	66.7	62.8
Amount due to construction contract customers (refer note 14)	70.8	35.6
Amounts due to related parties (refer note 22)	9.9	21.5
Other payables	184.4	174.3
	955.1	1,074.0

The average credit period on purchases of goods is 60 to 120 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid as per the agreed terms and conditions, provided the supplier has complied with the terms.

22. Related parties

Transactions between the Company and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note. Related parties include Directors, shareholders and key management personnel and entities in which they have the ability to control and exercise a significant influence in financial and operating decisions. The Group considers its joint operations as related parties on the basis of substance of the relationship.

The Group maintains significant balances with related parties which arise from commercial transactions. The types of related party transactions are described below.

(a) Commercial transactions

The Group receives and provides services to related parties in the normal course of business. These services consist of construction/fit-out work, leasing office space or land, use of specialised skills on certain projects, and use of employees from related party entities. In addition, the Group purchases supplies and inventory from certain related parties. Pricing policies and terms of related party transactions are approved in accordance with the Group's Corporate Governance policies, addressing related party transactions and conflicts of interest.

The tables below summarise amounts due to and due from related parties, as well as amounts included in expenses and management remuneration.

	AED million	
	2019	2018
Amounts due from related parties (refer note 13)		
Entities with common ownership and/or management		
Lindner AG	9.0	8.9
Decolight Trading LLC	-	0.5
Others	0.9	0.8
	9.9	10.2
Amounts included in trade receivables, contract retention and amounts due from customers on construction contracts are the following related party balances		
Entities with common ownership and/or management		
Arabtec Construction LLC	74.5	142.8
AF Construction LLC	138.3	128.5
Al Futtaim Trading Company LLC	-	3.2
Target Engineering Company LLC	7.9	-
	220.7	274.5
Less: Allowances for doubtful debts	(2.0)	(7.0)
	218.7	267.5

22. Related parties (continued)

	AED million	
	2019	2018
Amounts due to related parties (refer note 21)		
Joint Operations		
Amounts due to joint operating partners	0.3	9.5
Lindner Fassaden GmbH	-	11.2
Lindner Depa Interiors	8.8	-
Entities with common ownership and/or management		
Jordan Wood Industries PLC	0.8	0.8
	9.9	21.5

	AED million	
	2019	2018
Related party transactions		
Entities with common ownership and/or management		
Revenue	114.2	156.9
Expenses	161.2	161.7

(b) Compensation of key management personnel

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

	AED million	
	2019	2018
Short-term compensation	8.1	9.5
End of service benefits	0.5	0.6
Employee share scheme	(0.2)	2.7
Directors' fees	2.4	2.3
	10.8	15.1

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

23. Share premium

In line with the Board of Directors recommendation and following the provision of article of association of the Company, a special resolution was passed by the shareholders during the General Assembly convened on 12 June 2019 to reduce the accumulated losses by using the share premium account. Accordingly, share premium amounting to AED 182.0 million was offset against the accumulated losses of AED 182.0 million as at the date of approval.

24. Subsidiaries

The following subsidiaries in which the Company exercises control, directly or indirectly, are consolidated in these financial statements based on the financial statements of the respective subsidiaries:

		Holding %		
Name of subsidiary	Country	2019	2018	Principal activities
Depa United Group PJSC	United Arab Emirates	100%	100%	Strategic management
Depa Beta Investments LLC	United Arab Emirates	100%	100%	Strategic management
Subsidiaries of Depa United Group PJSC				
Carrara Mid-East Industrial Co. LLC	United Arab Emirates	100%	100%	Contracting
Deco Emirates Company LLC	United Arab Emirates	100%	100%	Contracting
Depa (UK) Limited	United Kingdom	100%	100%	Contracting
Depa Albarakah LLC	United Arab Emirates	100%	100%	Contracting
Depa Azerbaijan LLC	Azerbaijan	100%	100%	Contracting
Depa Construction LLC	United Arab Emirates	100%	100%	Contracting
Depa Décor, General Contracting & Maintenance Company LLC	United Arab Emirates	100%	100%	Contracting
Depa for Hotels Egypt SAE	Egypt	100%	92%	Contracting
Depa Germany Verwaltungs GmbH & Co. KG	Germany	100%	100%	Holding company
Depa Hungary KFT	Hungary	100%	100%	Holding company
Depa Munich GmbH & Co. KG	Germany	100%	100%	Holding company
Depa India Private Limited	India	100%	100%	Contracting
Depa India RAK FZE	United Arab Emirates	100%	100%	Supply
Depa Industrial Group (DIG) LLC	United Arab Emirates	100%	100%	Manufacturing
Depa Industrial Group Maroc sarl	Morocco	100%	100%	Manufacturing
Depa Interiors LLC	United Arab Emirates	100%	100%	Contracting

24. Subsidiaries (continued)

Depa Jordan Investment WLL	Bahrain	70%	70%	Holding company
Depa Mauritius	Mauritius	100%	100%	Holding company
Depa Qatar WLL	Qatar	100%	100%	Contracting
Depa SRL	Italy	100%	100%	Supply
DEPA Saudi Arabia for Contracting & Interior Design Ltd	Kingdom of Saudi Arabia	100%	100%	Contracting
Depa Syria SAE	Syria	100%	100%	Real estate
Depa USA Holding Company	United States of America	100%	100%	Holding company
Depamar Sarl	Morocco	100%	100%	Contracting
Dragoni International LLC	United Arab Emirates	60%	60%	Contracting
Design Studio Group Ltd	Singapore	90%	90%	Holding company
Design Studio Asia Pte. Ltd.	Singapore	100%	100%	Holding company
DSG Manufacturing Singapore Pte.Ltd	Singapore	100%	100%	Contracting
DSG Manufacturing Malaysia Sdn. Bhd.	Malaysia	100%	100%	Contracting
DS Project Management Sdn.Bhd.	Malaysia	100%	100%	Contracting
DS Interior Decoration (Middle East) LLC	United Arab Emirates	100%	100%	Contracting
Design Studio (China) Pte. Ltd.	Singapore	100%	100%	Holding company
DS (Huizhou) Home Furnishing Co., Ltd	China	100%	100%	Contracting
DSG Asia Holdings Pte. Ltd.	Singapore	100%	100%	Holding company
DSG Projects Singapore Pte. Ltd.	Singapore	100%	100%	Contracting
DDS Contracts & Interior Solutions (Thailand) Co., Ltd	Thailand	69%	69%	Contracting
DSG Projects Malaysia Sdn. Bhd.	Malaysia	100%	100%	Contracting
DDS Contracts & Interior Solutions (Vietnam) Co., Ltd	Vietnam	100%	100%	Contracting
Design Studio Lanka (Private) Limited	Sri Lanka	100%	100%	Contracting
DSG (Thailand) Co., Ltd	Thailand	100%	100%	Contracting
Design Studio Furniture(Shanghai) Co., Ltd	China	100%	100%	Contracting
DS Interior Contracts & Renovation (Shanghai) Co., Ltd	China	100%	100%	Contracting

24. Subsidiaries (continued)

El Diar 2	Mauritius	100%	100%	Holding company
Eldiar Furniture Manufacturing & Dec Co LLC	United Arab Emirates	100%	100%	Manufacturing
Mivan Depa Contracting (Bahrain) WLL	Bahrain	100%	100%	Supply
Project Division Company sarl	Morocco	100%	100%	Real estate
Paragon Creative Middle East LLC	United Arab Emirates	51%	51%	Trading
Pino Meroni Wooden and Metal Industries SAE	Egypt	100%	86%	Manufacturing
The Parker Company (Asia) Ltd**	Hong Kong SAR	-	51%	Holding company
The Parker Company (Middle East) FZ-LLC**	United Arab Emirates	-	51%	Procurement
The Parker Company (Shanghai) Ltd**	Hong Kong SAR	-	51%	Procurement
The Parker Company AG**	Switzerland	-	51%	Procurement
The Parker Company LLC USA**	United States of America	-	51%	Procurement
Thrislington Gulf Co. LLC	United Arab Emirates	100%	100%	Contracting
Vedder GmbH	Germany	100%	100%	Contracting
Vedder Corporation	USA	100%	100%	Contracting
Wallersdorfer Solar GmbH	Germany	100%	100%	Holding company

***Companies disposed of during the year*

25. Commitments and contingencies

	AED million	
	2019	2018
Letters of credit	59.9	22.1
Letters of guarantee	758.2	666.7
Security cheques issued	1.6	2.7

The above letters of credit and guarantee were issued in the normal course of business.

The Group has no committed capital expenditures for the year (2018: nil).

The security cheques were issued in lieu of performance guarantees.

Legal cases

The Group companies are defendants in a number of legal proceedings which arose in the normal course of business. The Group does not expect that the outcome of such proceedings either individually or in the aggregate will have a material effect on the Group's operations, cash flows or financial position.

26. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

(a) Proportion of equity interest held by non-controlling interests

	2019	2018
DSG	10%	10%

(b) Accumulated balances of material non-controlling interest

	AED million	
	2019	2018
DSG	(9.4)	16.9

(c) Loss allocated to material non-controlling interest.

	AED million	
	2019	2018
DSG	(26.6)	(7.4)

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations:

(d) Summarised consolidated statement of comprehensive income of DSG.

	AED million	
	2019	2018
Revenue	231.0	454.7
Loss before tax	(225.9)	(67.3)

(e) Summarised consolidated statement of financial position of DSG.

	AED million	
	2019	2018
Current assets	191.8	326.9
Current liabilities	291.5	218.0
Non-current assets	48.7	67.2
Non-current liabilities	3.4	0.1

(f) Summarised consolidated statement of cash flows of DSG.

	AED million	
	2019	2018
Operating	(64.5)	(54.2)
Investing	(2.6)	(8.4)
Financing	35.7	10.6
Decrease in cash and cash equivalents	(31.4)	(52.0)

27. Moratorium and judicial management of DSG subsidiaries

During the year, DSG incurred losses of AED 227.0 million (2018: AED 71.5 million) and have accumulated losses of AED 126.2 million (2018: retained earnings AED 110.4 million) as at 31 December 2019. DSG has net current liabilities of AED 99.7 million (2018: net current assets AED 108.9 million).

27. Moratorium and judicial management of DSG subsidiaries (continued)

Due to significant financial difficulties, the Design Studio Group Ltd. ("DSGL") and five of its Singaporean subsidiaries made an application to the High Court of the Republic of Singapore to commence a court-supervised process to reorganise its liabilities and to seek a moratorium against enforcement actions and legal proceedings by creditors. DSGL also made and application to Malaysian courts for three of its Malaysian incorporated subsidiaries to be placed under judicial management to seek a judicial management against enforcement actions and legal proceedings by creditors.

DSGL engaged independent financial advisors and Chief Restructuring Officer to oversee the restructuring process. DSGL has also appointed legal advisors to advise on matters pertaining to the restructuring.

On 19 February 2020, Singaporean Court made an order to extend the moratorium to 8 May 2020. The Judicial management was also extended on order of Malaysian Court until 22 April 2020. Management plan to apply for further extension to the courts and finalise the restructuring plan and discussions with the creditors.

The Group management believe that they will be able to support DSG during this period as it requires support for operations of these subsidiaries.

28. Segment information

The Group is organised in four key business units: DSG, Vedder, Depa Interiors, Deco Group and Investments and others. These businesses are the basis on which the Group reports its primary segment information to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The principal products and services of each of these businesses are as follows:

(a) DSG

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in the hospitality, commercial and residential sectors.
- Primarily operates in Asia.

(b) Vedder

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in luxury super yachts, private jets and residences.
- Primarily operates in Europe.

(c) Depa Interiors

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in luxury hotels, villas, residential, hospitality and public buildings.
- Primarily operates in the Middle East.

(d) Deco Group

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in the high-end luxury retail sector.
- Manufacture and supply of stone works to the interior fit-out sector, specialising in high quality marble.
- Manufacture and supply of joinery and carpentry work to the interior fit-out sector.
- Primarily operates in the Middle East.

(e) Investments and others

- Strategic management activities at a corporate level.
- Corporate services and head office function
- Various activities, including procurement services, contracting, manufacturing and supply to the interior fit-out sector.
- Activities are geographically spread.

Depa PLC and its subsidiaries

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

28. Segment information (continued)

The following is the analysis of the Group's segments as at:

AED million

	DSG	Vedder	Depa Interiors	Deco Group	Investments and others	Eliminations	Total
31 December 2019							
Reportable segment assets	241.2	365.8	1,415.7	377.5	3,340.6	(3,796.0)	1,944.8
Reportable segment liabilities	295.0	225.3	1,461.2	245.7	307.8	(1,253.2)	1,281.8
31 December 2018							
Reportable segment assets	394.2	372.6	1,639.0	401.8	3,528.9	(3,944.4)	2,392.1
Reportable segment liabilities	218.0	172.7	1,489.1	242.5	468.2	(1,326.1)	1,264.4
31 December 2019							
Revenue – internal	1.9	-	-	15.3	-	(17.2)	-
Revenue – external	229.1	362.1	545.1	211.5	28.0		1,375.8
Expenses	(455.2)	(331.1)	(689.8)	(252.1)	(46.9)	(13.2)	(1,788.3)
Share of loss from associates	-	-	-	-	(4.5)		(4.5)
Net finance cost	(1.6)	(1.5)	(14.5)	(2.2)	6.7		(13.1)
Income tax expense	(1.2)	(8.0)	(1.3)	-	(0.3)		(10.8)
(Loss) / profit for the year	(227.0)	21.5	(160.5)	(27.5)	(17.0)	(30.4)	(440.9)
Owners of Depa PLC	(200.4)	21.5	(152.9)	(27.5)	(19.4)	(30.4)	(409.1)
Capital expenditure	3.1	10.7	3.1	5.3	0.3	-	22.5
Depreciation	6.1	3.9	10.1	6.5	1.1	-	27.7
Amortisation	2.5	2.4	0.9	1.6	4.8	-	12.2
31 December 2018							
Revenue – internal	11.1	-	-	34.2	-	(45.3)	-
Revenue – external	443.6	378.8	656.2	217.4	106.3	-	1,802.3
Expenses	(521.8)	(331.9)	(619.1)	(227.6)	(110.4)	(85.6)	(1,896.4)
Share of loss from associates	-	-	-	-	(2.5)	-	(2.5)
Net finance cost	(0.2)	(1.6)	(10.6)	(1.6)	4.0	-	(10.0)
Income tax expense	(4.2)	(12.4)	(1.1)	-	(0.9)	-	(18.6)
(Loss) / profit for the year	(71.5)	32.9	25.4	22.4	(3.5)	(130.9)	(125.2)
Owners of Depa PLC	(64.3)	32.9	29.4	22.4	(13.0)	(130.9)	(123.5)
Capital expenditure	8.9	5.9	4.7	3.5	2.0	-	25.0
Depreciation	6.5	4.0	9.6	6.6	5.5	-	32.2
Amortisation	-	-	-	0.7	5.5	-	6.2

The Group recorded revenue amounting to AED 1,366.1 million (2018: AED 1,698.7 million) over time and the remaining AED 9.7 million (2018: AED 103.6 million) was recognised at a point in time. Point in time revenue is recorded only in the Investment and others segment.

29.Cash and cash equivalents

	AED million	
	2019	2018
Cash on hand	1.2	1.0
Current accounts	181.0	181.9
Short term fixed deposits	12.5	10.4
Term deposits with maturity over three months	9.1	0.8
Restricted cash	13.2	187.5
Cash and bank balances	217.0	381.6
Term deposits with maturity over three months	(9.1)	(0.8)
Restricted cash	(13.2)	(187.5)
Bank overdraft (refer note 19)	(108.1)	(33.6)
Cash and cash equivalents	86.6	159.7

The Group identified immaterial impairment loss for cash and cash equivalents.

28.1 Net cash/(debt) (excluding restricted cash) reconciliation

	2019	2018
Cash and cash equivalents (excluding overdraft)	194.7	193.3
Borrowings - repayable within one year (including overdrafts)	(169.1)	(60.5)
Borrowings - repayable after one year	(23.4)	(22.8)
Net cash (excluding restricted cash)	2.2	110.0
Lease liabilities*	(34.2)	-
Net	(32.0)	110.0
Cash and cash equivalent (excluding overdraft)	194.7	193.3
Borrowings – fixed interest rates (including overdrafts)	(26.9)	(25.5)
Borrowings – variable interest rates (including overdrafts)	(165.6)	(57.8)
Net cash (excluding restricted cash)	2.2	110.0
Lease liabilities*	(34.2)	-
Net	(32.0)	110.0

*Adoption of IFRS 16

The cash flows in respect of bank borrowings and lease liabilities are presented on the cash flow statement and reconciles with the net debt.

30.Joint operations

The Group has interest in the following joint operations:

		Holding %		Principal activities
Name of associate	Country	2019	2018	
Depa/CCC – SKMC	Morocco	50%	50%	Contracting
Depa/CCC and GTGCE	United Arab Emirates	50%	50%	Contracting
Lindner Depa Interiors LLC	United Arab Emirates	51%	51%	Contracting
Lindner Middle East LLC (note 31)	United Arab Emirates	-	51%	Supply

The Group is entitled to a proportionate share of the joint operation assets and revenue and bears a proportionate share of the liabilities and expenses. The amounts overleaf are included in the Group's consolidated financial statements as a result of the Group's rights to the assets, returns, and obligations for liabilities relating to the joint operations.

30.Joint operations (continued)

	AED million	
	2019	2018
Current assets	32.1	56.8
Non-current assets	-	0.1
Current liabilities	3.5	19.8
Non-current liabilities	0.1	0.5
Revenue	10.1	41.3
Expenses - net	(9.0)	(29.6)
Profit for the year	1.1	11.7

31.Disposal of entities

During current period, the Group sold its investments in Lindner Middle East LLC, The Parker Company Middle East FZ LLC and The Parker Company LLC. The detail of sale is as follows:

	AED million
Consideration	50.7
Carrying amount of net assets sold	(63.6)
Non-controlling interest	10.1
Loss on sale	(2.8)

At the time of the sale the fair value of the consideration was determined to be AED 50.7 million. The carrying amounts of assets and liabilities as at 30 April 2019 were:

	AED million
Property and equipment and other non-current assets	1.3
Trade and other receivables	25.9
Inventories	1.4
Cash and other bank balance (including restricted cash)	185.4
Goodwill	33.5
Total assets	247.5
Trade and other payables	182.3
Employees' end of service benefits	1.6
Total liabilities	183.9
Net assets	63.6

32. Acquisition of non-controlling interest

During the period, the Group acquired non-controlling interest of Depa Hotels Egypt SAE and Pino Meroni Wooden and Metal Industries SAE for AED 0.7 million, increasing its ownership interest to 100%.

33. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's Board of Directors and senior management review and agree the policies, and oversee the management of these risks. The policies for managing each of these risks are summarised overleaf.

33. Financial risk management (continued)

Market risk

i. Foreign exchange risk

The Group's foreign currency monetary assets and liabilities are denominated mainly in following currencies:

- Category A: US Dollar, Saudi Arabian Riyals, Qatari Riyals and Bahraini Dinars.
- Category B: Euro, Indian Rupee, British Pound, Moroccan Dirham, Singapore Dollar, Egyptian Pounds, Syrian Pounds and Azerbaijan New Mana't.

As the Category A monetary assets and liabilities are either US Dollars or pegged to US Dollars, the sensitivity only considers the effect of a reasonably possible movement of the AED currency rate against Category B monetary assets and liabilities with all other variables held constant, on the consolidated statement of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

At 31 December 2019, if these had strengthened/weakened by 10% against the AED, the net equity for the year would have been higher/lower by AED 6.4 million (2018: AED 23.1 million). The carrying amounts of the Group's foreign currency denominated assets and liabilities at the reporting date are as follows:

AED million

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Azerbaijan New Mana't	0.2	22.8	0.2	22.6
Bahraini Dinar	3.2	20.8	5.0	20.7
British Pound	0	16.8	-	16.3
Egyptian Pound	31.1	67.4	24.0	54.8
Euro	365.8	225.4	301.5	172.4
Indian Rupee	37.0	36.8	22.5	21.1
Moroccan Dirham	46.5	38.4	46.6	37.1
Qatari Riyal	27.6	30.7	50.1	43.3
Saudi Riyal	139.7	117.5	138.0	110.3
Singaporean Dollar	240.5	291.6	407.3	231.7
Syrian Pound	1.5	0.9	1.4	0.7
US Dollar	49.5	5.1	218.7	171.1

ii. Price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis.

The Group is not exposed to significant price risks as it does not have significant price sensitive assets and liabilities.

iii. Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

33. Financial risk management (continued)

Market risk (continued)

iii. Cash flow and fair value interest rate risk (continued)

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank loans, bank overdrafts, acceptances and trust receipts). The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group is not exposed to significant cash flows and fair value interest rate risk.

iv. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade receivables and other receivables, amount due from customers and bank balances. The Group has adopted a policy of only dealing with creditworthy counterparties, however significant revenue is generated by dealing with high profile well known customers, for whom the credit risk is assessed to be low. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of such counterparties. Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Trade receivables from the Group's twenty largest customers is 44% (2018: 50%) at the end of the reporting period.

The Group limits its credit risk with regard to bank deposits by dealing only with reputable banks.

v. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business, the Group maintains adequate bank balances and credit facilities to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	AED million			
	Less than 12 months	1 to 5 years	>5 years	Total
As at 31 December 2019				
Trade and other payables*	611.6	11.9	-	623.5
Lease liabilities (note 35)	6.8	17.4	20.7	44.9
Borrowings	171.6	10.5	12.9	195.0
	790.0	39.8	33.6	863.4
As at 31 December 2018				
Trade and other payables*	572.7	11.3	-	584.0
Borrowings	63.1	8.4	14.4	85.9
	635.8	19.7	14.4	669.9

*(including retentions and excluding advances, amounts due to contract customers and lease liabilities)

33. Financial risk management (continued)

Market risk (continued)

vi. Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio which is calculated as net debt divided by total 'equity' (as shown in the consolidated statement of financial position including non-controlling interests).

The Group was net cash positive as at 31 December 2019 and 2018.

vii. Fair value estimation

Financial instruments comprise financial assets and financial liabilities.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: Measurement is made by using quoted prices (unadjusted) from an active market.

Level 2: Measurement is made by means of valuation methods with parameters derived directly or indirectly from observable market data.

Level 3: Measurement is made by means of valuation methods with parameters not based exclusively on observable market data. The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2019 and 2018.

	AED million			
	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed as at 31 December 2019				
Investment properties	-	-	33.4	33.4
Financial assets at FVOCI	-	-	16.5	16.5
Total	-	-	49.9	49.9
Assets for which fair values are disclosed as at 31 December 2018				
Investment properties	-	-	36.0	36.0
Financial assets at FVOCI	-	-	17.6	17.6
Total	-	-	53.6	53.6

34. Financial instruments

Financial instruments comprise financial assets and financial liabilities as follows:

	AED million		
	Financial assets at fair value through OCI	Financial assets at amortised cost	Total
Financial assets As at 31 December 2019			
Trade and other receivables (including subcontractor/supplier retentions)*	-	555.2	555.2
Financial assets at fair value through OCI	16.6	-	16.6
Cash and bank balances	-	217.1	217.1
	16.6	772.3	788.9

	AED million		
	Available-for-sale investments	Financial assets at amortised cost	Total
Financial assets As at 31 December 2018			
Trade and other receivables (including subcontractor/supplier retentions)*	-	708.2	708.2
Financial assets at fair value through OCI	17.6	-	17.6
Cash and bank balances	-	381.6	381.6
	17.6	1,089.8	1,107.4

	AED million
	Liabilities at amortised cost
Financial liabilities As at 31 December 2019	
Trade and other payables**	623.5
Lease liabilities	44.9
Borrowings	195.0
	863.4
Financial liabilities As at 31 December 2018	
Trade and other payables (including retentions)**	584.0
Borrowings	83.3
	667.3

* Excluding prepayments and advances to subcontractors and suppliers

** including retentions and excluding advance received and amounts due to construction contract customers

The carrying amount reflected in previous page represents the Group's maximum exposure to credit risk for such loans and receivables.

35. Change in accounting policy

This note explains the impact of the adoption of IFRS 16 Leases on the Group's consolidated financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

As indicated in note 2, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed below.

35.1 Impact of adoption

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranges from 3.2% to 6.6%. The Group does not have any material finance leases.

(i) Practical expedients applied

In applying IFRS 16 Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- 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.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application.

(ii) Measurement of lease liabilities

	AED million
Operating lease commitments disclosed as at 31 December 2018	68.7
Discounted using the lessee's incremental borrowing rate at the date of initial application	56.5
(Less): short-term leases recognised on a straight-line basis as expense	(15.8)
(Less): low-value leases recognised on a straight-line basis as expense	(0.6)
Lease liability recognised as at 1 January 2019	40.1
Current lease liabilities	6.5
Non-current lease liabilities	33.6
	40.1

Lease liabilities recognised as at 31 December 2019

Current lease liabilities*	5.6
Non-current lease liabilities	28.8
	34.4

*included in trade and other payables.

35. Change in accounting policy (continued)

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2019. Certain associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. 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 recognised right-of-use assets relate to the following types of asset:

AED million

	31 December 2019	1 January 2019
Properties	32.5	38.8
Equipment	0.4	0.7
Total right-of-use assets	32.9	39.5

(iv) Amounts recognised in the consolidated statement of financial position

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

AED million

	31 December 2018	Impact of adoption	1 January 2019
Right-of-use assets	7.9	31.6	39.5
Lease liabilities	(8.5)	(31.6)	(40.1)
Trade and other receivables*	0.6	-	0.6
	-	-	-

*represents adjustment of prepaid rent in relation to long term lease agreements with right-of-use assets on adoption of IFRS 16 ‘Leases’

The impact on retained earnings on 1 January 2019 was not material to the consolidated financial statements of the Group.

35. Change in accounting policy (continued)

(v) Amounts recognised in the consolidated statement of profit and loss

The statement of comprehensive income shows the following amounts relating to leases:

	AED million 2019
Amortisation of right of-use-assets	6.6
Interest expense (included in finance cost)	1.7
Total expense	8.3

The total cash outflow for leases in 2019 was AED 7.4 million (2018: Nil).

The impact on retained earnings on 1 January 2019 was not material to the consolidated financial statements of the Group.

(vi) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities at 31 December 2019 all increased as a result of the change in accounting policy. There was no material impact on the segment profit for year ended 31 December 2019.

Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy:

		AED million
	Segment lease liabilities	Segment right-of-use assets
Depa Interiors	11.1	10.8
Deco Group	9.3	8.8
DSG	5.8	5.1
Vedder	8.2	8.2
Total	34.4	32.9

There was no material impact on earnings per share and segment earnings for the year ended 31 December 2019.

The accounting policies are disclosed in note 2.26.

36. Dividend

During 2018, the Board of Directors approved an interim dividend of UAE 2.6 fils per share which was subsequently paid. No dividends were paid during 2019 nor is the Board of Directors recommending a final ordinary dividend.

37. Non adjusting event

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China, Italy and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event.

The management have considered its impact on the economy and business by curtailing its 12 months revenue and cash flow projections for the Group. However, the situation is fluid and rapidly evolving.

38. Corresponding figures

Certain corresponding figures have been reclassified where appropriate to conform to the current year's presentation.

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Depa PLC ("the Company") and its subsidiaries (together "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.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the requirements of the Dubai Financial Services Authority ("DFSA"). We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries (continued)

Our audit approach

Overview

Key Audit Matters	Recoverability of contract balances Potential impairment of goodwill Revenue recognition from long-term contracts Management's assumption of going concern basis

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Recoverability of contract balances Recoverability of contract balances is a key matter for our audit. Although receivables will have been agreed with the customer either through the original contracts or formal agreements of variations, claims and compensating events, uncertainty remains around the customer's ability to settle their dues to the Group. Contract balances amount to AED 1.3 billion as at 31 December 2019, before a provision of AED 305 million for doubtful accounts (net AED 995 million).	We focused on those contract balances with significant uncertainty around recoverability, based on the age, possible expected losses and materiality of the outstanding debt, known disputes and the existence of arbitration proceedings. We discussed the judgements applied by management in relation to their assessment of the required provision for impairment of these individual receivables, and have tested management's assertions by reference to external sources, in particular the correspondence between the Group and the customers concerned, the individual circumstances of each contract and our knowledge of the industry and the most recent publicly available financial information of particular customers. We also considered historical impairment provisions recognised by the Group and the relevant subsequent outcomes.

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of contract balances (continued)	
Furthermore, the Group has significant long overdue balances from certain customers for completed projects for which the Group is currently in discussion with the customers for the settlement of these balances. In relation to such projects, AED 86.6 million (gross) is reflected in trade and other receivables and due from construction contract customers, against which a provision of AED 25.6 million is recorded in the consolidated financial statements. Please refer to Note 3 (Critical accounting estimates and assumptions) and Note 13 (Trade and other receivables) and Note 14 (Due from construction contract customers) to the consolidated financial statements for further details.	We also assessed the appropriateness of the accounting policies and disclosures made in the consolidated financial statements.
Potential impairment of goodwill	
Goodwill, which arose on various acquisitions over several years, amounted to AED 105 million as at 31 December 2019 (2018: AED 168 million). Goodwill is not subject to annual amortisation but it is tested annually for impairment or whenever there is an impairment indicator. The Group determined the recoverable amount of goodwill as the higher of fair value less costs of disposal and value in use. The Group engaged an independent expert to assist in making the assessment. In the current year, management recorded an impairment amounting to AED 29 million in two of its group of cash generating units against goodwill.	We obtained management's assessment of the potential impairment of goodwill and compared it against the requirements of IAS 36. We obtained the report issued by the Group's external expert. We performed an evaluation of the independence and qualifications of the expert employed by management together with the scope of their work and the findings and conclusions of their report.

Key audit matter	How our audit addressed the key audit matter
Potential impairment of goodwill (continued)	
Given the materiality of goodwill in the Group's statement of financial position, the recognition of any further impairment could have a significant impact on the Group's statement of financial position and on its reported financial performance and earnings per share. We focused on this area due to the significant management judgement involved in performing the impairment test. The most significant assumptions in the impairment test were growth rate of cash flows and discount rate. Please refer to Note 3 (Critical accounting estimates and assumptions) and Note 9 (Goodwill) to the consolidated financial statements where the impairment of non-financial assets has been discussed.	We tested the mathematical accuracy of the cash flow model. We compared the 2019 base data to the Group's accounting records We tested the key assumptions used in the impairment model's key assumptions as set out below: *Growth rate* We assessed the reasonableness of the growth rates based on historic performance, management budgets and the contract order book as at 31 December 2019. *Discount rate* We independently recalculated the discount rate, taking into account data from contracting companies of a similar nature of operations. We also assessed the appropriateness of the accounting policies and disclosures made in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from long-term contracts	
The Group enters into contracts, many of which are complex and long-term, spanning several reporting periods. The recognition of revenue and profit on these contracts in accordance with "IFRS 15 – Revenue from Contracts with Customer" is over time, based on progress of its projects through cost to complete method. This is assessed by reference to the proportion of contract costs incurred for the work performed at the balance sheet date relative to the estimated total costs of the contract at completion. Revenue on contracts is a key audit matter because of the judgement involved in preparing suitable estimates of the forecasted future costs to complete each contract and associated revenues. An error in the contract forecast could result in a material variance in the amount of revenue and profit or loss recognised to date and therefore in the current period. These judgements include the expected recovery of costs arising from the following: variations to the original contract terms, compensation events, and claims made against the contractor for delays or other additional costs for which the customer is deemed liable. The incorrect inclusion or calculation of these amounts in the contract forecast where there is uncertainty could result in a material error in the level of revenue and profit or loss recognised by the Group. Please refer to Notes 2.25 (Revenue recognition accounting policy) and Note 3 (Critical accounting estimates and assumptions) to the consolidated financial statements for further details.	We focused our work on those contracts that we deemed to have the greatest estimation of uncertainty over the final contract values and therefore revenue and profit. We challenged the judgements applied in management's forecasts, in particular the key assumptions which included the expected recovery from variations, claims and compensation events included in the forecast. We also considered the historical financial performance and forecast out-turn against budget of other contracts of a similar nature and size and industry knowledge. We met with each of the various commercial teams for the contracts we selected and obtained certifications and other relevant third party correspondence to test the explanations provided to us. We tested a sample of costs by agreeing them to supporting documentation. We inspected correspondence with customers concerning variations, claims and compensation events, and, where applicable, obtained third party estimates of these from legal experts contracted by the Group to assess whether this information was consistent with the estimates made. We also assessed the appropriateness of the accounting policies and disclosures made in the consolidated financial statements.
Management's assessment of going concern basis The consolidated financial statements have been prepared on going concern basis. As disclosed in Note 2.1.1, the Group had incurred losses of AED 452 million (2018: AED 139 million) and the Group's ability to continue as a going concern is dependent on the successful renewal of its banking facilities.	We carried out the following procedures: • Obtained and reviewed management's cash flow projections for a period of 12 months from the approval of the consolidated financial statements; • Tested the mathematical accuracy of the calculations included within the cash flow projections;

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries (continued)

Key audit matter	How our audit addressed the key audit matter
Management's assessment of going concern basis (continued) As disclosed in Note 27, one of the key business units of the Group i.e. Design Studio Group Limited (DSGL) has applied for moratorium and judicial management in Singaporean and Malaysian courts respectively. DSG will require support from the Group to continue its operation as a going concern for a foreseeable future. Further, management have made downward revisions to the Group's forecasted results due to potential impacts of Covid-19. This matter has been disclosed in Note 37. In assessing the appropriateness of the going concern basis, management have considered a 12 months' cash flow projections from the date of approval of the consolidated financial statements. Based on assessments made, management have determined that the use of going concern basis in preparation of the consolidated financial statements of the Group is appropriate. We considered this to be a key audit matter as the assessment is subjective and judgemental.	• Tested the key assumptions used in the cash flow projections such as projected revenue and its inflows by: - agreeing projected revenue with the budget for 2019 adjusted for post Covid-19 scenario; - reviewing the contract order book on a sample basis as of 31 December 2019; - reviewing the progress of the ongoing projects; and - holding independent discussions with the commercial team on the progress of the ongoing projects. • Examined the Group's funding agreements that are in place; • Obtained relevant correspondence with the term loan financiers and other financial institutions; and • Performed a sensitivity analysis over the Group's cash flow projections for the going concern assessment period. We also assessed the adequacy of the Group's disclosures on management's assessment of the basis of preparation on a going concern basis in Note 2.1.1 to the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Group's annual report which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 that we obtained prior 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 Group's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries (continued)

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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of Markets Law No 1 of 2012 (as amended) 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.

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

- Identify and assess the risks of material misstatement of the 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 auditor's 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.

Independent auditor's report to the shareholders of Depa PLC and its subsidiaries (continued)

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

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

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

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

Report on other legal and regulatory requirements

Further, we report that the Company's financial statements have been properly prepared in accordance with the applicable provisions of the Markets Law No 1 of 2012 (as amended).

PricewaterhouseCoopers
21 April 2020

Murad Nsour
Partner
Place: Dubai, United Arab Emirates