

**EDITA FOOD INDUSTRIES (S.A.E.)
AND ITS SUBSIDIARIES**

**INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IFRS)**

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Consolidated financial statements - For the year ended 31 December 2019

Contents	Page
Independent auditor's report	1 – 6
Consolidated balance sheet	7
Consolidated statement of profit or loss.....	8
Consolidated statement of comprehensive income	9
Consolidated statement of changes in equity	10
Consolidated cash flows statement	11
Notes to the consolidated financial statements	12 – 61



Independent auditor's report to the shareholders of Edita Food Industries Company (S.A.E)

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 Edita Food Industries Company (S.A.E) ("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 (IFRSs) and the prevailing Egyptian laws and regulations.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- 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 other ethical requirements that are relevant to our audit of the consolidated financial statements in Egypt. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Independent auditor's report to the shareholders of Edita Food Industries Company (S.A.E) (continued)

Our audit approach

Overview

Key audit matters	<ul style="list-style-type: none">• Valuation of trademark intangible assets which have indefinite useful lives• Implementation of IFRS 16 "Leases"
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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 judgments; 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

Valuation of trademark intangible assets which have indefinite useful lives

The Group's balance sheet includes intangible assets amounting to EGP 162.9 million as at 31 December 2019, relating to the purchase of trademarks and knowhow on certain of its branded products (see Note 7 to the consolidated financial statements).

Under the Group's accounting policy, trademarks and knowhow are treated as having indefinite useful lives because the related licenses are perpetual, irrevocable and exclusive. They include the trademark in the territory in connection with specific cake product brands. Under accounting standards when intangible assets are assumed to have indefinite useful lives,

We obtained management's valuation analysis which is derived from the Board approved business plan. The most significant judgments within that analysis relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular the terminal growth rate and the forecast combined operating ratios in the projection period and investment return assumptions.

We evaluated management's discounted cash flow forecasts and the process by which they were developed. We compared these forecasts to Board-approved business plans for consistency and also compared previous

and no amortisation is charged, management are required to perform an annual test to assess whether the carrying value of these trademarks has been impaired. Management have not identified any decline in the value in the trademarks concerned and have assessed that no impairment is required.

The impairment test is based on management's view of the future cash flows to be generated from the trademarked brands concerned.

We focused on the carrying values of these intangible assets because of the amount of inherent uncertainty involved in estimating future product cash flows and also because of the potentially significant impact on the Group's reported income, its earnings per share and its asset carrying values of relatively small changes in the underlying assumptions.

forecasts to actual results to assess the performance of the business and the accuracy of management forecasting. We confirmed that the key assumptions had been subject to oversight from the directors.

With the assistance of our internal valuations specialists we tested the assumptions and methodologies used, in particular those relating to the discount rate and growth rates. To do this:

- We evaluated these assumptions with reference to those applied to valuations of similar companies.
- We compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates.
- We applied sensitivities in evaluating management's assessment of the planned growth rate in cash flows and combined operating ratios.
- We tested the calculations within the valuation model for mathematical accuracy, and considered the sensitivity of the calculations by varying the assumptions and applying other values within a reasonably possible range of outcomes.
- We assessed the adequacy of the Group's disclosure regarding the key assumptions, sensitivities and headroom as included in the accounting policies and in note 6 to the consolidated financial statements

Implementation of IFRS 16 "Leases"

The Group has adopted IFRS 16 "Leases" with effect from 1 January 2019. This new accounting standard supersedes the requirements of IAS 17 'Leases'.

Management performed a detailed analysis of each lease contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease.

We performed the following as part of our audit:

- Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its right-of-use assets and lease liabilities, and understood the approach taken towards implementation;
- Assessed the accuracy of the lease data by testing, on a sample basis, the lease data captured by management through the inspection of lease documents;
- Tested lease schedules, on a sample basis, by recalculating the amounts underlying the



Page 4

IFRS 16 principally modifies the accounting treatment of operating leases at inception, with the recognition of a right-of-use on the leased asset and a corresponding liability for the discounted amount of lease payments over the term of lease contract.

The Group has chosen to apply IFRS 16 “Leases” under the simplified approach.

Management also assessed the disclosure requirements of the new standard to be made in the consolidated financial statements.

We considered this as a key audit matter because the calculations of amounts underlying the right-of-use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of significant management judgement relating to the terms in the contracts.

Refer to Note 2.A.III which explains the impact of the adoption of the new standard, notes 2.K for the accounting policy and Note 6 for the related disclosures in the accompanying consolidated financial statements.

right-of-use assets and lease liabilities, based on the terms of the lease contracts. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the overall adjustment totals applied in the consolidated financial statements as at 1 January 2019; and

- Consulted our accounting subject matter specialists to assess the appropriateness of the discount rates used in computation of lease liability obligations.
- Assessed the completeness of the lease data by comparing the contracts included in the contracts analysis to those tested in the current and prior period lease testing.

We also reviewed the adequacy of the Group’s disclosures included in the accompanying consolidated financial statements in relation to the implementation of the new standard.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors’ annual report (but does not include the consolidated financial statements and our auditor’s report thereon).

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

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

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

Responsibilities of management and those charged with governance for the 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 with the prevailing Egyptian laws, 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.



Independent auditor's report to the shareholders of Edita Food Industries Company (S.A.E) (continued)

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 skepticism throughout the audit. We also:

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



Page 6

Independent auditor's report to the shareholders of Edita Food Industries Company (S.A.E) (continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

22 March 2020
Cairo, Egypt



EDITA FOOD INDUSTRIES (S.A.E) AND ITS SUBSIDIARIES

Consolidated balance sheet - At 31 December 2019

(All amounts in Egyptian Pounds)

	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	5	1,993,845,097	1,884,237,454
Right of use assets	6	61,432,524	-
Intangible assets	7	168,276,650	169,921,078
Prepayments on future investments in subsidiary	8	-	10,850,159
Total non-current assets		2,223,554,271	2,065,008,691
Current assets			
Inventories	9	295,420,425	288,828,341
Trade and other receivables	11	204,193,093	128,179,325
Treasury bills	12	548,192,500	290,180,875
Cash and bank balances	13	153,615,452	63,579,745
Total current assets		1,201,421,470	770,768,286
Total assets		3,424,975,741	2,835,776,977
Liabilities and Equity			
Non-current liabilities			
Borrowings	14	605,756,771	495,564,577
Deferred tax liabilities	15	167,800,747	158,168,693
Employee benefit obligations	16	11,600,000	6,621,193
Lease liabilities	17	56,293,305	-
Total non-current liabilities		841,450,823	660,354,463
Current liabilities			
Trade and other payables	18	544,325,008	460,405,346
Current income tax liabilities	19	63,186,112	6,633,469
Borrowings	14	185,887,584	211,049,595
Bank overdraft	20	120,096,127	19,126,567
Lease liabilities	17	7,576,894	-
Provisions	21	21,221,845	29,270,866
Total current liabilities		942,293,570	726,485,843
Total liabilities		1,783,744,393	1,386,840,306
Equity			
Share capital	22	145,072,580	145,072,580
Legal reserve	23	78,233,972	73,265,674
Cumulative translation reserve		(202,760)	16,103
Transactions with non-controlling interest	24	(32,132,098)	-
Retained earnings		1,414,038,957	1,206,786,382
		1,605,010,651	1,425,140,739
Non-controlling interests	24	36,220,697	23,795,932
Total equity		1,641,231,348	1,448,936,671
Total liabilities and equity		3,424,975,741	2,835,776,977

- The accompanying notes on pages 12 to 61 form an integral part of these consolidated financial statements.

- Auditor's report attached


Mr. Sameh Naguib
Vice President - Finance

26 February 2020
Giza


Eng. Hani Berzi
Chairman

EDITA FOOD INDUSTRIES (S.A.E) AND ITS SUBSIDIARIES

Consolidated statement of profit or loss "IFRS" - For the year ended 31 December 2019

(All amounts in Egyptian Pounds)

	Note	Year ended 31 December	
		2019	2018
Revenue	29	4,025,272,151	3,776,424,133
Cost of sales	31	(2,602,963,051)	(2,565,067,553)
Gross profit		1,422,309,100	1,211,356,580
Distribution cost	31	(593,990,396)	(444,026,080)
Administrative expenses	31	(291,683,948)	(256,025,396)
Other income	25	11,658,738	7,729,678
Other losses - net	26	(42,146,567)	(23,687,522)
Operating profit		506,146,927	495,347,260
Finance income		93,768,528	38,314,043
Finance cost		(106,998,119)	(122,329,790)
Finance cost - Net	27	(13,229,591)	(84,015,747)
Profit before income tax		492,917,336	411,331,513
Income tax expense	28	(130,629,735)	(107,681,080)
Net profit for the year		362,287,601	303,650,433
Profit is attributable to			
Owners of the parent		363,220,873	301,492,789
Non-controlling interest		(933,272)	2,157,644
Net profit for the year		362,287,601	303,650,433
Earnings per share (expressed in EGP per share):			
Basic earnings per share	30	0.50	0.42
Diluted earnings per share	30	0.50	0.42

- The accompanying notes on pages 12 to 61 form an integral part of these consolidated financial statements.

EDITA FOOD INDUSTRIES (S.A.E) AND ITS SUBSIDIARIES

Consolidated statement of comprehensive income - For the year ended 31 December 2019

(All amounts in Egyptian Pounds)

	Year ended 31 December	
	2019	2018
Profit for the year	362,287,601	303,650,433
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(1,215,386)	221,605
Other comprehensive (loss) / income for the year - net of tax	(1,215,386)	221,605
Total comprehensive income for the year	361,072,215	303,872,038
Total comprehensive income is attributable to		
Owners of the parent	363,002,010	301,714,394
Non-controlling interest	(1,929,795)	2,157,644
Total comprehensive income for the year	361,072,215	303,872,038

- The accompanying notes on pages 12 to 61 form an integral part of these consolidated financial statements.

EDITA FOOD INDUSTRIES (S.A.E) AND ITS SUBSIDIARIES

Consolidated statement of changes in equity - For the year ended 31 December 2019

(All amounts in Egyptian Pounds)

	Total Owners' Equity							
	Share capital	Legal reserve	Cumulative translation reserve	Transactions with non-controlling interest	Retained earnings	Total owners of the parent	Non-controlling interest	Total owners' equity
Balance at 1 January 2018	145,072,580	56,474,533	(205,502)	-	1,007,084,734	1,208,426,345	21,800,103	1,230,226,448
Profit for the year	-	-	-	-	301,492,789	301,492,789	2,157,644	303,650,433
Other comprehensive income for the year	-	-	221,605	-	-	221,605	-	221,605
Total comprehensive income for the year	-	-	221,605	-	301,492,789	301,714,394	2,157,644	303,872,038
Transactions with owners in their capacity as owners:								
Dividends distribution for 2017	-	-	-	-	(85,000,000)	(85,000,000)	(161,815)	(85,161,815)
Transfer to legal reserve	-	16,791,141	-	-	(16,791,141)	-	-	-
Balance at 31 December 2018	145,072,580	73,265,674	16,103	-	1,206,786,382	1,425,140,739	23,795,932	1,448,936,671
Balance at 1 January 2019	145,072,580	73,265,674	16,103	-	1,206,786,382	1,425,140,739	23,795,932	1,448,936,671
Profit for the year	-	-	-	-	363,220,873	363,220,873	(933,272)	362,287,601
Other comprehensive loss for the year	-	-	(218,863)	-	-	(218,863)	(996,523)	(1,215,386)
Total comprehensive income for the year	-	-	(218,863)	-	363,220,873	363,002,010	(1,929,795)	361,072,215
Transactions with owners in their capacity as owners:								
Transactions with non-controlling interest	-	-	-	(32,132,098)	-	(32,132,098)	(23,165,685)	(55,297,783)
Non-controlling interest share in establishment of subsidiary	-	-	-	-	-	-	37,693,675	37,693,675
Dividends distribution for 2018	-	-	-	-	(151,000,000)	(151,000,000)	(173,430)	(151,173,430)
Transfer to legal reserve	-	4,968,298	-	-	(4,968,298)	-	-	-
Balance at 31 December 2019	145,072,580	78,233,972	(202,760)	(32,132,098)	1,414,038,957	1,605,010,651	36,220,697	1,641,231,348

- The accompanying notes on pages 12 to 61 form an integral part of these consolidated financial statements.

EDITA FOOD INDUSTRIES (S.A.E) AND ITS SUBSIDIARIES

Consolidated statement of cash flows - For the year ended 31 December 2019

(All amounts in Egyptian Pounds)

	Notes	Year end 31 December	
		2019	2018
Cash generated from operations	32	678,889,786	646,067,861
Interest paid		(100,019,397)	(126,882,706)
Income tax paid		(62,454,457)	(42,772,496)
Net cash inflow from operating activities		516,415,932	476,412,659
<u>Cash flows from investing activities</u>			
Payment for purchase of property, plant and equipment	5	(277,166,085)	(97,176,199)
Payment for purchase of intangible assets		(729,058)	-
Proceeds from sale of property, plant and equipment		8,831,820	9,842,207
Prepayments on future investments in subsidiary		-	(10,850,159)
Cash acquired on establishment of subsidiary		10,850,159	-
Interest received		47,969,019	26,892,398
Payment for purchase of treasury bills		(1,502,816,565)	(191,969,753)
Proceeds from sale of treasury bills		1,183,615,500	226,571,670
Net cash outflow from investing activities		(529,445,210)	(36,689,836)
<u>Cash flows from financing activities</u>			
Dividends paid to shareholders		(151,173,430)	(85,161,815)
Payments to acquire non-controlling interest		(55,297,783)	-
Proceeds from non-controlling interest on the establishment of subsidiary		37,693,675	-
Lease Payments		(6,241,903)	-
Repayments of borrowings		(275,973,661)	(182,205,616)
Proceeds from borrowings		379,732,129	67,142,841
Net cash out flow from financing activities		(71,260,973)	(200,224,590)
Net (decrease) / increase in cash and cash equivalents		(84,290,251)	239,498,233
Cash and cash equivalents at beginning of the year		179,589,499	(60,130,339)
Effects of exchange rate on cash and cash equivalents		(1,761,042)	221,605
Cash and cash equivalents at end of the year	13	93,538,206	179,589,499

- The accompanying notes on pages 12 to 61 form an integral part of these consolidated financial statements.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

1. General information

Edita Food Industries S.A.E. was established in July 9, 1996, under the investment Law No. 230 of 1989 which had been replaced by law No. 8 of 1997 and the money market Law No. 95 of 1992, and is registered in the commercial register under number 692 Cairo.

The Group provides manufacturing, producing and packing of all food products and producing and packing of juices, jams, readymade food, cakes, pastry, milk products, meat, vegetables, fruits, chocolate, vegetarian products and other food products with all necessary ingredients.

The Group's financial year start on 1 January and ends on 31 December each year.

The main shareholders are Quantum Investment BV which owns 41.815% of the Company's share capital and the Bank of New York Mellon "depository bank for shares traded in London Stock Exchange" which manages 12.861% of the Company share capital and Kingsway Fund Frontier Consumer Franchises which owns 11.131% of Company's share capital and other shareholders owning 34.193% of company's share capital.

These consolidated financial statements have been approved by Chairman and Managing Director on 26 February 2020.

consolidated financial statements of the Group comprise financial statements of Edita Food Industries Company (S.A.E.) and its subsidiaries (together referred to as the "Group").

Edita Food Industries:

Edita food industries is the holding company. The company provides manufacturing, producing and packing of all food products and producing and packing of readymade food, cakes, pastry, milk, chocolate and other food products with all necessary ingredients and sell the products to Digma for Trading.

The group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Digma for Trading:

Digma for trading main activity is wholesale and retail trading in consumable goods. The Company also acts as a distributor for local and foreign factories and companies producing these goods and also imports and exports, in accordance with laws and regulations. The company buys from Edita confectionery industries and Edita food industries and distributes to others.

Edita Confectionery Industries:

The company's purpose is to build and operate a factory for production, sales of distributions of Sweets, Toofy, Jelly and Caramel other nutrition materials and sell the products to Digma for Trading.

Edita participation limited:

The principal activities of the company are the provision of services and the holding of investments but the Company does not have any operations until now and all its transactions are immaterial.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

General information (continued)

Edita Food Industries Morocco:

The company's main purpose is to build and operate a factory for production, sales and distribution of cakes, pastry, wafer and other confectionary products. Edita Morocco incorporated in 2019, with 51% majority stake owned by Edita Food Industries (S.A.E.).

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling interests	
		2019	2018	2019	2018
Digma for trading	Egypt	99.8%	99.8 %	0.2%	0.2 %
a Confectionery Industries	Egypt	99.98%	77.71 %	0.02%	22.29 %
dita participation limited	Cyprus	100%	100 %	-	-
Edita Food Industries Morocco	Morocco	51%	-	49%	-

Financial information about the subsidiaries of the group as at 31 December 2019 and 31 December 2018

Name of subsidiary	Total Assets 2019	Total Equity 2019	Total Sales 2019	Net Profit/ (loss) 2019
Digma for trading	348,975,043	190,475,352	3,689,583,280	34,287,005
Edita Confectionery Industries	211,335,096	119,775,378	144,061,511	13,726,945
Edita participation limited	41,262,594	(4,473,075)	-	(2,271,158)
Edita Food Industries Morocco	101,359,569	74,867,193	-	(2,058,931)

Name of subsidiary	Total Assets 2018	Total Equity 2018	Total Sales 2018	Net Profit/ (loss) 2018
Digma for trading	315,629,952	242,903,348	3,466,987,824	74,078,258
Edita Confectionery Industries	187,280,299	106,048,435	147,424,084	9,015,183
Edita participation limited	17,711,524	(2,201,917)	-	(1,931,436)

The above mentioned financial information are related to amounts as included in the separate financial statements which have been used in the consolidation.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

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.

A. Basis of preparation

I. Compliance with IFRS

The consolidated financial statements of Edita food industries and its subsidiaries “the group” have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

II. Historical cost convention

These financial statements have been prepared under the historical cost basis except for the defined benefit obligation which is recognized at the present value of future obligation using the projected credit unit method.

III. New standards, interpretations and amendments adopted by the Group

A number of new and amended standards became effective as of 1 January 2019, the impact of which is described below. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

IFRIC 23 ‘Uncertainty over income tax treatments’

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

IFRS 16 ‘Leases’

IFRS 16 replaces IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’. IFRS 16 ‘Leases’ introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Basis of preparation (continued)

The Group has adopted IFRS 16 on 1 January 2019, using the modified retrospective approach, therefore, the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with a restatement of comparative information. The Group has applied the practical expedient to grandfather the definition of a lease on transition i.e. all contracts entered into before 1 January 2019 are identified as leases in accordance with IAS 17 and IFRIC 4. The impact of adopting IFRS 16 on the Statement of Financial Position as at 1 January 2019 and 31 December 2018 and Statement of Profit or Loss for the period ended 31 December 2018 are as follows:

	31 December 2018	Impact of IFRS 16	1 January 2019
Assets			
Non-current assets			
Property, plant and equipment	1,884,237,454	-	1,884,237,454
Right of use assets	-	32,144,016	32,144,016
Intangible assets	169,921,078	-	169,921,078
Prepayments on future investments in subsidiary	10,850,159	-	10,850,159
Advance payments for acquisition of non-controlling interest	-	-	-
Total non-current assets	2,065,008,691	32,144,016	2,097,152,707
Current assets			
Inventories	288,828,341	-	288,828,341
Trade and other receivables	128,179,325	-	128,179,325
Treasury bills	290,180,875	-	290,180,875
Cash and bank balances	63,579,745	-	63,579,745
Total current assets	770,768,286	-	770,768,286
Total assets	2,835,776,977	32,144,016	2,867,920,993
Liabilities			
Non-current liabilities			
Term loans	495,564,577	-	495,564,577
Deferred tax liabilities	158,168,693	-	158,168,693
Employee benefit obligations	6,621,193	-	6,621,193
Lease liabilities	-	24,593,751	24,593,751
Total non-current liabilities	660,354,463	24,593,751	684,948,214
Current liabilities			
Trade and other payables	460,405,346	-	460,405,346
Current income tax liabilities	6,633,469	-	6,633,469
Current portion of term loans	211,049,595	-	211,049,595
Bank overdraft	19,126,567	-	19,126,567
Lease liabilities	-	7,550,265	7,550,265
Provisions	29,270,866	-	29,270,866
Total current liabilities	726,485,843	7,550,265	734,036,108
Equity			
Share capital	145,072,580	-	145,072,580
Legal reserve	73,265,674	-	73,265,674
Cumulative translation reserve	16,103	-	16,103
Retained earnings	1,206,786,382	-	1,206,786,382
	1,425,140,739	-	1,425,140,739
Non-controlling interests	23,795,932	-	23,795,932
Total equity	1,448,936,671	-	1,448,936,671
Total liabilities and equity	2,835,776,977	32,144,016	2,867,920,993

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Basis of preparation (continued)

The Company, as a lessee, recognizes a right-of-use asset and a lease liability on the lease commencement date.

Upon initial recognition the right of use asset is measured as the amount equal to initially measured lease liability adjusted for lease prepayments. Subsequently, the right of use asset is measured at cost net of any accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the shorter estimated useful lives of the right-of-use assets or the lease term.

The lease liability was measured upon initial recognition at the present value of the future lease payments and related fixed services payments over the lease term, discounted with the country specific incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequently lease liabilities are measured at amortized cost using the effective interest rate method.

Right-of-use assets and lease liabilities will be remeasured subsequently if one of the following events occurs:

- Change in lease price due to indexation or rate which has become effective in reporting period.
- Modifications to the lease contract.
- Reassessment of the lease term.

Leases of non-core assets and not related to the main operating activities of the Group, which are short- term in nature (less than 12 months including extension options) and leases of low-value items are expensed in the Income Statement as incurred.

Transition

The Company adopted IFRS 16 on the date the standard becomes effective, 1 January 2019. The Group adopted the standard using the modified retrospective approach. And that comparatives were not restated.

The Group used the following practical expedients when adopting IFRS 16 on its effective date:

- IFRS 16 applied only to contracts that were previously assessed as leases in accordance with the previous IFRS standards (IAS 17 Leases and IFRIC 4 Determining whether and Arrangement contains a Lease);
- a single discount rate applied to a portfolio of leases with reasonably similar characteristics as permitted by IFRS 16;
- initial direct cost was excluded from the measurement of if the right-of-use asset as at 1 January 2019;

The weighted-average incremental borrowing rate applied to lease liabilities recognized on 1 January 2019 was 18.5%.

Significant judgements upon adoption IFRS 16

IFRS 16 requires the Company to assess the lease term as the non-cancellable lease term in line with the lease contract together with the period for which the Company has termination options for which the Company is reasonably certain not to exercise those termination options.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Basis of preparation (continued)

A significant portion of the lease contracts included within Company's lease portfolio includes lease contracts which are extendable through mutual agreement between Edita for Food Industries S.A.E and the lessor or lease contracts which are cancelable by the Company on immediately or on short notice.

In assessing the lease term for the adoption of IFRS 16, the Company concluded that these cancelable future lease periods should be included within the lease term, which represents an increase to the future lease payments used in determining the lease liability upon initial recognition. The reasonably certain period used to determine the lease term is based on facts and circumstances related to the underlying leased asset and lease contracts.

The following table reconciles the Company's operating lease commitments as of 31 December 2018, to the lease liabilities recognized upon initial application of IFRS 16 on 1 January 2019.

Operating lease commitments as of 31 December 2018	52,873,500
Short term leases	(303,095)
Total undiscounted lease payments which are reasonably certain	52,570,405
Discounting effect using incremental borrowing rate	(20,426,389)
IFRS 16 Lease liability recognized on balance sheet as of 1 January 2019	32,144,016
IFRS 16 lease liability presented as:	
Non-current	24,593,751
Current	7,550,265
	32,144,016

Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

Amendments to IFRS 3 –definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

Amendments to IAS 1 and IAS 8 on the definition of material

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

B. Basis of consolidation

1. 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 to direct the activities of 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.

The acquisition method of accounting is used to account for business combinations by the group

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 have been changed where necessary to ensure consistency 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, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2. 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.

3. Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

4. Changes in ownership interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

C. Principles of consolidation and equity accounting

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

D. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer. The board of EDITA FOOD INDUSTRIES has appointed a chief operating decision-maker who assess the financial performance and position of the group, and makes strategic decisions. Which has been identified as the chief executive officer.

E. Foreign currency translation

(1) Functional and presentation currency

These consolidation financial statements are presented in EGP "Egyptian Pounds" which is the group presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss, they are deferred in equity if they are attributable to part of the net investment in foreign operations.

Foreign exchange gains and losses that relate to loans and cash and cash equivalents are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within 'other gains / (losses) – net'.

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

(3) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Foreign currency translation (continued)

- (b) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and.
- (c) All resulting exchange differences are recognized in other comprehensive income. On consolidation, exchange differences arising from translation of the net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to 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. Exchange differences arising are recognized in other comprehensive income.

F. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods – wholesale

Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesalers, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of damage and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The products is often sold with retrospective volume discounts based on aggregate sales over a 3 months period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, based on actual volume, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with market practice. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

G. Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

H. Dividend income

Dividend income is recognised when the right to receive payment is established.

I. Export subsidy

The Company obtains a subsidy against exporting some of its production. The subsidy is calculated based on a percentage from the total exports invoices determined by the Export Development Fund related to the Commercial and Industry Ministry. Export subsidy is recognized in the statement of profit or loss as other income after meeting all required criteria.

J. Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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 also 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

K. Leases

The group leases various properties, Rental contracts are typically made for fixed periods of 3 to 7 years lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized 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 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
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

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
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

L. Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

M. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

N. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown in current liabilities in the balance sheet.

O. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for goods' sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

P. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenditures, the latter being allocated on the basis of normal operating capacity but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and estimated costs necessary to make the sale, and the provision for obsolete inventory is created in accordance to the management's assessment.

Q. Financial assets under IFRS 9

(1) Classification

From 1 January 2018, the group classifies its financial assets in the following measurement 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 Group's financial asset at amortised cost comprise of trade receivables, other debit balances and treasury bills.

The classification depends on the entity'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, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the 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.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial assets under IFRS 9 (continued)

(2) Measurement

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.

Debt instruments – treasury bills

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. According to the group business model the group subsequently measure debt instruments at amortised cost for Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(3) Impairment

From 1 January 2018, the group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

R. Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of Profit or loss during the financial year in which they are incurred.

Land is not depreciated.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual value over their estimated useful lives, as follows:

Buildings	25 – 50 years
Machinery & equipment	20 years
Vehicles	5 – 8 years
Tools & equipment	3 – 5 years
Furniture & office equipment	4 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains / (losses) in the statement of profit or loss.

Projects under construction are stated at cost less realized impairment losses. Cost includes all expenses associated with the acquisition of the asset and make it usable. When the assets is ready for its intended use, it is transferred from project under construction to the appropriate category under property, plant and equipment and depreciated in accordance with group policy.

S. Intangible assets

Intangible assets (Trademarks & know how) have indefinite useful lives as there is no foreseeable limit on the period of time over which the brands are expected to exist and generate cash Flows, and are carried at cost less impairment losses. Historical cost includes all expenses associated with the acquisition of an intangible asset,

The trademark and know how is recognized as an indefinite intangible asset as the license is perpetual, irrevocable and exclusive including the trademark in the territory related to cake products. The brand has an established presence in the territory since 1990s. In addition, the group has a strong historic financial track-record and forecasts continued growth also, the knowhow of perpetual license not exposed to typical obsolescence as it relates to a food products. The brand remain popular in the Middle East and the group does not foresee any decline in the foreseeable future.

Computer software

Separately acquired software licences are shown at cost less the accumulated amortization and the accumulated impairment losses. The Group charges the amortization amount of the software licences consistently over their estimated useful lives of four years using the straight-line method.

The costs of the acquisition of computer software licenses that are not considered an integral part of computers are recognized as intangible assets on the basis of costs related to preparing the asset for use in the purpose for which it was acquired.

T. Trade and other payables

These amounts represent liabilities for goods or services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

U. Borrowing

Borrowing are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the Loans using the effective interest method.

Established fees "transaction cost"

Loans are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Borrowing (continued)

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowing are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

V. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific Loans pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are recognized in profit or loss in the period in which they are incurred.

W. Provisions

Provisions are recognized when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate to the expenditures required to settle the obligation at the end of the period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

X. Employee benefits

(1) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All other current employee benefit obligations in the balance sheet.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Employee benefits (continued)

(2) Post-employment obligation

Pension obligations

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government 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.

The net interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in the statement of profit or loss.

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 retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The defined benefit plan defines an amount of benefits to be provided in the form of 15 working days payment for each year they had worked for the company for employees who reach the age of sixty, according to the following criteria:

- The contribution is to be paid to employees for their working period at the Company only
- The working period must be not less than ten years.
- The maximum contribution is 12 months salary.

For defined contribution plans, the group pays fixed contributions to social insurance authority on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(3) Profit-sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Employee benefits (continued)

(4) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer and in accordance with labour law. Falling due more than 12 months after the end of the reporting period are discounted to present value.

Y. Contributed equity

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.

Z. Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

AA. Earnings per share

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group excluding any costs of servicing equity other than ordinary shares by the weight average number of ordinary shares in issue during the year excluding ordinary shares purchase by the Group and held as treasury shares.

(2) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group does not have any categories of dilutive potential ordinary shares, hence the diluted earnings per share is the same as the basic earnings per share.

BB. Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

3. Financial risk management

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 management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance.

The group's risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies and evaluates financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognized financial assets and liabilities not denominated in Egyptian pounds	Cash flow forecasting Sensitivity analysis	by local banks that the Company deals with in official rates and the rest from its exports in US Dollars
Market risk – interest rate	Long-term borrowing at variable rates	Sensitivity analysis	Investment in short treasury bills
Market risk – security prices	No investment in a quoted equity securities	Not applicable	Not applicable
Credit risk	Cash and cash equivalents, trade receivables and held-to-maturity investments	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and governmental treasury bills
Liquidity risk	Loans and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

(A) Market risk

(i) Foreign exchange risk

The group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group covers part of its imports of raw materials in foreign currency by local banks that the Company deals with in official rates and the rest from its exports in US Dollars.

Exposure

The group's exposure to foreign currency risk at the end of the reporting year, expressed in Egyptian pounds, was as follows:

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial risk management (continued)

At year end, major financial Assets (liabilities) in foreign currencies were as follows:

	Assets	Liabilities	Net 2019	Net 2018
Euros	35,057,637	(29,695,049)	5,362,588	(63,155,160)
United States Dollars	107,995,452	(487,439,213)	(379,443,761)	(249,598,178)

Amounts recognised in profit or loss

During the year, the following foreign-exchange related amounts were recognized in profit or loss and other comprehensive income:

	2019	2018
Amounts recognised in profit or loss		
Net foreign exchange gain / (loss) included in finance cost and other gain or losses	29,880,928	234,041
	29,880,928	234,041
Net losses recognised in other comprehensive income		
Foreign currency translation reserve	(1,215,386)	221,605
	(1,215,386)	221,605

Sensitivity analysis

As shown in the table above, the group is primarily exposed to changes in US/EGP and Euro/EGP exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from Euro and US-dollars denominated financial instruments and the impact on profit got the year components arises from contracts designated financial liabilities.

Euro/EGP

At 31 December 2019, if the Egyptian Pounds had weakened / strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been LE 536,258 (2018: LE 6,315,516) higher / lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated financial assets and liabilities.

USD/EGP

At 31 December 2019, if the Egyptian Pounds had weakened / strengthened by 10% against the US Dollars with all other variables held constant, post tax profit for the year would have been LE 37,944,376 (2018: LE 24,959,818) higher / lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated financial assets and liabilities.

(ii) Price risk

The Group has no investments in quoted equity securities so it's not exposed to the fair value risk due to changes in the prices.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial risk management (continued)

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by short term treasury bills which are renewed with the applicable interest rate at the time of renewal. Borrowings measured at amortized cost with variable rates do not expose the company to fair value interest rate risk.

At 31 December 2019, if interest rates on Egyptian pound -denominated net interest bearing liabilities had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been LE 9,117,405 (2018: LE 7,257,407) lower/higher interest expense on floating rate borrowings.

Borrowings at the balance sheet date with variable interest rate amounted to LE 791,644,355 (2018: LE 706,614,172)

Overdraft at the balance sheet on 31 December 2019 amounted to LE 120,096,127 (2018: LE 19,126,567)

(B) Credit risk

(i) Risk management

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, treasury bills, as well as credit exposures to customers, including outstanding receivables

(ii) Security

For banks and financial institutions, the Group is dealing with the banks with good reputation and subject to rules of the Central Bank of Egypt.

For the customers, the Group assesses the credit quality of the customers, taking into account its financial position, and their market reputation, past experience and other factors.

(iii) Credit quality

For Treasury bills, the Group deals with government which are considered with a high credit rating (Egypt B+).

No credit limits were exceeded during the reporting year, and management does not expect any losses from non-performance by these counterparties except for the impairment of accounts receivables presented in (Note 11).

For the wholesalers, the Credit Controllers assess the credit quality of the wholesale customer, taking into account its financial position, and their market reputation, past experience and other factors.

For Individuals there is no credit risk since all sales are in cash.

The maximum exposure to credit risk is the amount of receivables, cash balances and Treasury Bills.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial risk management (continued)

The group sells to retail customers which are required to be settled in cash, therefore there is no significant concentration of credit risk.

The Group does not sell more than 10% of the total sales to a single customer.

Trade receivables

Counter parties without external credit rating:

	<u>2019</u>	<u>2018</u>
Trade and notes receivables	52,997,688	48,311,880
Total	<u>52,997,688</u>	<u>48,311,880</u>

Outstanding trade receivables are current and not impaired

The table below summarizes the maturities of the Company's trade receivables at 31 December 2019 and 31 December 2018:

	<u>2019</u>	<u>2018</u>
Less than 30 days	21,349,844	26,874,692
From 31 to 60 days	26,651,463	13,322,554
From 61 to 90 days	4,887,431	8,114,634
More than 90 days	108,950	-
	<u>52,997,688</u>	<u>48,311,880</u>

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	<u>2019</u>	<u>2018</u>
At 1 January	20,556	20,556
	<u>20,556</u>	<u>20,556</u>

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

Cash at bank and short-term bank deposits:

All current accounts and deposits are held at Egyptian banks subject to the supervision of the Central Bank of Egypt.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial risk management (continued)

(C) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants) on any of its borrowing facilities. Such forecasting takes into consideration the company debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2019 based on contractual payment dates and current interest rates.

At 31 December 2019	Between			
	Less than 6 month	6 month & 1 year	Between 1 & 2 years	More than 2 years
Borrowings	89,454,468	89,454,468	355,992,164	249,764,534
Future interest payments	34,870,958	30,438,190	74,038,278	25,535,291
Trade and other payables	364,356,861	-	-	-
Bank overdraft	120,096,127	-	-	-
Notes payable	128,454,135	-	-	-
Lease liability	4,708,276	4,708,276	56,100,454	52,756,420
Total	741,940,825	124,600,934	486,130,896	328,056,245
At 31 December 2018				
Borrowings	94,507,002	108,250,441	187,050,382	308,514,195
Future interest payments	49,055,203	40,061,651	61,135,771	61,288,204
Trade and other payables	294,885,007	-	-	-
Bank overdraft	19,126,567	-	-	-
Notes payable	99,686,739	267,721	-	-
Total	557,260,518	148,579,813	248,186,153	369,802,399

The amount of unused credit facility is nil as of 31 December 2019 (2018: EGP 8,000,000) also the Company will have future interest payments related to Loans amounted to EGP 164,882,717 (2018: EGP 211,540,829).

(1) Capital management

The Group's objectives when managing capital is to safeguard their 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.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Financial risk management (continued)

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt represents all loans and borrowings and bank overdraft less cash and cash equivalents. Total capital is calculated as equity, plus net debts.

	<u>2019</u>	<u>2018</u>
Total borrowings	791,644,355	706,614,172
Bank overdraft	120,096,127	19,126,567
Total borrowings and loans	911,740,482	725,740,739
Less: Cash and bank balances	(153,615,452)	(63,579,745)
Net debt	758,125,030	662,160,994
Total equity	1,641,231,348	1,448,936,671
Total capital	2,399,356,378	2,111,097,665
Gearing ratio	31.6%	31%

The company has a stable gearing ratio during both periods as the increase in the overdraft facilities is compensated by an increase in cash and cash equivalents and an increase in equity.

Loan covenants

Under the terms of the major borrowing facilities, the group is required to comply with the following financial covenants:

- The debt to equity ratio must be not more than 1:1.
- Debt service ratio shall not fall below 1.2.
- Leverage ratio shall not exceed 1.5:1.
- Current ratio shall not be less than 1
- Liabilities to Tangible Net Worth Ratio of not more than 1.5;
- Net Financial Debt to EBITDA Ratio of not more than 1.8;
- Adjusted PPE to Financial Debt Ratio of not less than 2.2; and
- Days Payable Ratio of not more than 75 days

As of 31 December 2019, the Group was in compliance with the debt covenants.

(2) Fair value estimation

The fair value of financial assets or liabilities with maturities date less than one year is assumed to approximate their carrying value. The fair value of financial liabilities – for disclosure purposes – is estimates by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

4. Critical accounting estimates and judgments

1. Critical accounting estimates and assumptions

Estimates and adjustments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely 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 outlined below:

Impairment of infinite life intangible assets (trade mark and know how)

The group tests whether infinite life intangible assets have suffered any impairment on an annual basis.

The recoverable amount of a cash generating unit (CGU) is determined based on a value of in use calculations which require the use of assumptions (Note 7).

Employee benefit retirement obligation

The present value of employees' defined benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of employees' benefits include the discount rate of future cash outflows and any changes in these assumptions will impact the carrying amount of employees' benefits.

The Group determines the appropriate discount rate of cash flows at the end of each financial year. The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefits obligations. The Group considers the discount rate at the end of the financial year on market returns on the government bonds denominated in the currency and the year estimated for the defined benefits obligations.

Note (16) shows the main assumptions used to estimate the employees' benefit obligation.

2. Critical judgments in applying the group's accounting policies

Revenue recognition

The Group, based on past performance, are confident that the quality of products is such that the expiry and dissatisfaction rate will be below 1%. Management has determined that it is highly probable that there will be no reversal of revenue recognized and a significant reversal in the amount of revenue will not occur.

Determining the lease term

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

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

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

5. Property, plant and equipment

At 1 January 2018

	Land	Buildings	Machinery & equipment	Vehicles	Tools & equipment	Furniture & office equipment	Projects under construction	Total
Cost	120,908,260	881,187,062	1,057,570,462	161,934,695	100,478,878	86,871,590	43,152,742	2,452,103,689
Accumulated depreciation	-	(94,854,984)	(239,238,823)	(82,720,305)	(52,317,066)	(55,362,985)	-	(524,494,163)
Net book amount	120,908,260	786,332,078	818,331,639	79,214,390	48,161,812	31,508,605	43,152,742	1,927,609,526
Year ended 31 December 2018								
Opening net book amount	120,908,260	786,332,078	818,331,639	79,214,390	48,161,812	31,508,605	43,152,742	1,927,609,526
Additions	-	-	5,432,630	30,550,100	9,214,424	6,833,293	45,145,752	97,176,199
Depreciation charge	-	(35,429,474)	(52,450,786)	(22,646,852)	(15,645,831)	(13,327,846)	-	(139,500,789)
Accumulated depreciation of disposals	-	-	466,675	10,573,628	758,075	1,288,135	-	13,086,513
Disposals	-	-	(466,675)	(11,586,168)	(758,075)	(1,323,077)	-	(14,133,995)
Transfers from projects under construction	-	42,701,115	15,996,627	-	5,557,650	850,968	(65,106,360)	-
Closing net book amount	120,908,260	793,603,719	787,310,110	86,105,098	47,288,055	25,830,078	23,192,134	1,884,237,454
At 31 December 2018								
Cost	120,908,260	923,888,177	1,078,533,044	180,898,627	114,492,877	93,232,774	23,192,134	2,535,145,893
Accumulated depreciation	-	(130,284,458)	(291,222,934)	(94,793,529)	(67,204,822)	(67,402,696)	-	(650,908,439)
Net book amount	120,908,260	793,603,719	787,310,110	86,105,098	47,288,055	25,830,078	23,192,134	1,884,237,454
Year ended 31 December 2019								
Opening net book amount	120,908,260	793,603,719	787,310,110	86,105,098	47,288,055	25,830,078	23,192,134	1,884,237,454
Additions	-	-	1,500,526	101,691,246	13,494,593	7,037,855	153,441,865	277,166,085
Depreciation charge	-	(36,878,264)	(54,658,223)	(27,651,032)	(17,854,912)	(12,397,450)	-	(149,439,881)
Impairment loss	-	-	(16,593,500)	-	-	-	-	(16,593,500)
Accumulated depreciation of disposals	-	35,486	57,000	7,951,478	497,845	13,623	-	8,555,432
Disposals	-	(44,175)	(570,000)	(8,954,850)	(497,845)	(13,623)	-	(10,080,493)
Transfers from Projects under construction	-	14,947,749	50,853,284	-	5,852,636	5,709,229	(77,362,898)	-
Closing net book amount	120,908,260	771,664,515	767,899,197	159,141,940	48,780,372	26,179,712	99,271,101	1,993,845,097
At 31 December 2019								
Cost	120,908,260	938,791,751	1,130,316,854	273,635,023	133,342,261	105,966,235	99,271,101	2,802,231,485
Accumulated depreciation	-	(167,127,236)	(362,417,657)	(114,493,083)	(84,561,889)	(79,786,523)	-	(808,386,388)
Net book amount	120,908,260	771,664,515	767,899,197	159,141,940	48,780,372	26,179,712	99,271,101	1,993,845,097

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Property, plant and equipment (continued)

Depreciation included in the statement of profit or loss are as follows:

	<u>2019</u>	<u>2018</u>
Charged to cost of sales	104,505,198	98,571,143
Charged to distribution costs	25,797,074	23,996,918
Charged to administrative expenses	19,137,609	16,932,728
	<u>149,439,881</u>	<u>139,500,789</u>

The projects under construction represent:

	<u>2019</u>	<u>2018</u>
Buildings	31,254,205	15,037,717
Machinery & equipment	54,531,374	7,916,795
Tools & equipment	12,321,313	192,345
Technical and other installations	1,164,209	45,277
	<u>99,271,101</u>	<u>23,192,134</u>

Impairment Loss:

The company considered the impairment indicators for certain equipment which has become idle on 2019 therefore, the company determined the recoverable amount at fair value minus cost to sell which is higher than value in use.

The equipment was written down to its recoverable amount of EGP 4 M, which was determined by an independent valuer, using current replacement cost method due to the specialised nature of the equipment.

The impairment loss amounted to EGP 16,593,500 is included in Other expenses in the statement of profit or loss. (Note 26)

6. Right of use assets

	<u>Right of use assets</u>
Balance on initial adoption of IFRS 16	32,144,016
Additions during the year	39,086,151
Depreciation expenses	(8,679,579)
Exchange differences	(1,118,064)
Balance as of 31 December 2019	<u>61,432,524</u>

Right of use assets represent properties rented by the group.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

7. Intangible assets

	2019			
	Trademark (A)	Know how (B)	Software (C)	Total
Cost	131,480,647	31,430,995	7,009,436	169,921,078
Additions	-	-	729,058	729,058
Amortisation for the year	-	-	(2,373,486)	(2,373,486)
Balance as of	131,480,647	31,430,995	5,365,008	168,276,650

	2018			
	Trademark (A)	Know how (B)	Software (C)	Total
Cost	131,480,647	31,430,995	9,345,914	172,257,556
Amortisation for the year	-	-	(2,336,478)	(2,336,478)
Balance as of	131,480,647	31,430,995	7,009,436	169,921,078

A. Trademark

	Trade Mark (HOHOS, Twinkies & Tiger Tail)	
	2019	2018
	Cost	
Opening Balance	131,480,647	131,480,647
Balance as of	131,480,647	131,480,647

The intangible assets in the amount of ten million US Dollars equivalent to LE 68,618,658 paid – against buying all the rights to the trademarks (HOHOS, Twinkies & Tiger Tail) and the consequences of this acquisition of the trademark in the countries of Egypt, Jordan, Libya and Palestine these rights do not have a definite life. On the 16th of April 2015 the Group had signed a new contract for expanding the scope of the rights to the trademarks (HOHOS, Twinkies, and Tiger Tail) to include Algeria, Bahrain, Iraq, Kuwait, Lebanon, Morocco, Oman, Qatar, Kingdom of Saudi Arabia, Syria, Tunisia, United Arab Emirates and this trademarks have indefinite useful lives, and this is against USD 8 Million equivalent to EGP 62,861,989.

B. Know how

	Know How	
	2019	2018
Cost		
Opening balance	31,430,995	31,430,995
Balance as of	31,430,995	31,430,995

On the 16 April 2015 the Group had signed a “License and Technical Assistance Agreement” with the owner of the know-how with purpose to acquire the license, know how and technical assistance for some Hostess Brands products in the countries Egypt, Libya, Palestine, Jordan, Algeria, Bahrain, Iraq, Jordan, Lebanon, Kuwait, Morocco, Oman, Qatar, Kingdom of Saudi Arabia, Syria, Tunisia, and the United Arab Emirates, and this is against an amount of USD 4 Million equivalent to EGP 31,430,995.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Intangible assets (continued)

C. Software

	Software	
	2019	2018
Cost		
Opening balance	7,009,436	9,345,914
Additions	729,058	-
Amortization expense for the year	(2,373,486)	(2,336,478)
Balance as of	5,365,008	7,009,436

D. Impairment test for infinite life intangible assets

Infinite life intangible assets are monitored by management at the level of cake segment – cash generating unit.

E. Recoverable amount of cake segment

The recoverable amount of the cake segment is determined based on value-in-use calculation which require the use of assumptions. The calculations use cash flows projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. This growth rate is consistent with forecasts included in industry reports specific to the industry where CGU operates.

The impairment of intangible assets is reviewed annually to ensure that the carrying value of the intangible assets does not exceed the recoverable value.

Assumptions used by the Group when testing the impairment of intangible assets as of 31 December 2019 as follows:

Average gross margin	41%
Sales growth rate	17%
Pre-tax discount rate	21%
Growth rate	3%

Management has determined the value assigned to each of the above key assumption as follows:

Assumption	Approach used
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development
Sales price	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts.
Budgeted gross margin	Based on past performance and management's expectations for the future.
Other operating costs	Fixed costs of the CGUs, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business
Annual capital expenditure	Expected cash costs in the CGUs. This is based on the historical experience of management, and the planned refurbishment expenditure
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports
Pre-tax discount rates	Reflect specific risks relating to the industry in which it operate.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Intangible assets (continued)

The Group test the impairment of intangible assets depending on financial, operational, marketing position in the prior years, and its expectation for the market in the future by preparing a business plan using the growth rate and the discount rate prevailing. At the statement of financial position date, the carrying value of the intangible assets is less than its recoverable amount.

Sensitivity of recoverable amounts

The growth rate in the forecast period has been estimated to be 3%. If all other assumptions kept the same, a reduction of this growth rate by 100% would give a value in use exceed the current carrying amount.

The discount rate in the forecast period has been estimated to be 21%. If all other assumptions kept the same, and the discount rate is 40% would give a value in use exceed the current carrying amount.

At 31 December 2019, if the gross profit rate had increased / decreased by 1% with all other variables held constant, the recoverable amount is higher than the carrying amount, therefore there will be no need to make an impairment.

8. Prepayments on future investments in subsidiary

On 14 March 2018, the company has signed a shareholder's agreement with Morocco's Dislog Group and Technica Middle East Trading Company for the purpose of establishing a new company in the Kingdom of Morocco, Edita Food Industries Morocco. The terms of the agreement stipulate that Edita will be the controlling owner of the new company with 51% stake. The company has paid an amount of EGP 10,850,159 which represent 25% of its share capital of the new company. The registration and establishment was finalized during the year.

9. Inventories

	<u>2019</u>	<u>2018</u>
Raw and packaging materials	195,916,056	187,074,081
Spare parts	43,060,821	45,942,680
Finished goods	40,892,377	43,280,500
Consumables	7,279,085	5,293,740
Work in process	11,419,617	11,684,556
Total	298,567,956	293,275,557
Less: allowance for decline in value	(3,147,531)	(4,447,216)
Net	295,420,425	288,828,341

The cost of individual items of inventory are determined using moving average cost method.

During the year ended 31 December 2019, there has been a slow moving and obsolete inventory addition amounted to LE 2,136,834 (2018: LE 4,694,415) (Note 26) and the cost of write down amounted to LE 3,436,519 (2018: LE 1,400,545).

The cost of inventory recognized as an expense and included in cost of sales amounted to LE 2,000,791,962 during the year ended 31 December 2019 (2018: LE 2,030,438,835).

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

10. Financial instruments by category

The Group holds the following financial instruments:

	<u>2019</u>	<u>2018</u>
Financial assets at amortised cost		
Trade and other receivables (excluding non-financial assets)* (Note 11)	78,376,198	63,605,689
Cash and bank balances (Note 13)	153,615,452	63,579,745
Treasury bills (Note 12)	548,192,500	290,180,875
Total	<u>780,184,150</u>	<u>417,366,309</u>
	<u>2019</u>	<u>2018</u>
Financial liabilities at amortised cost		
Borrowings (Note 14)	791,644,355	706,614,172
Trade and other payables (excluding non-financial liabilities)* (Note 18)	492,810,996	394,839,467
Bank overdraft (Note 20)	120,096,127	19,126,567
Lease liabilities (Note 17)	63,870,199	-
Total	<u>1,468,421,677</u>	<u>1,120,580,206</u>

* At the Balance sheet date, the carrying value of all short-term financial assets and liabilities approximates the fair value. Long-term borrowings also approximate the fair value as the loans bears a variable interest rate, so the fair value equals the principal amount.

Trade and other receivables presented above excludes prepaid expenses, advances to supplies and taxes.

Trade and other payables presented above excludes taxes payables, advances from customers and social insurances.

11. Trade and other receivables

	<u>2019</u>	<u>2018</u>
Trade receivables	52,253,383	45,439,750
Notes receivable	744,305	2,872,130
Total	<u>52,997,688</u>	<u>48,311,880</u>
Less: Provision for impairment of trade receivables	(20,556)	(20,556)
	<u>52,977,132</u>	<u>48,291,324</u>
Advances to suppliers	93,969,686	39,866,322
Prepaid expenses	15,403,515	8,813,890
Deposits with others	15,542,106	12,326,569
Other current assets	9,378,854	2,537,032
Value added tax – receivables	16,443,694	15,893,424
Letters of credit	239,152	228,366
Employee loans	238,954	222,398
Total	<u>204,193,093</u>	<u>128,179,325</u>

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Trade and other receivables (continued)

Classification of trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in Note (3B).

Other receivables

These amounts generally arise from transactions outside the usual operating activities of the group. Interest may be charged at commercial rates where the terms of repayment exceed nine months. Collateral is not normally obtained.

Impairment of trade receivables

Information about the impairment of trade receivables and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note (3B).

Trade receivables are due for settlement within 90 days therefore there is no significant financing component.

12. Treasury bills

	<u>2019</u>	<u>2018</u>
Treasury bills par value		
91 Days maturity	60,225,000	141,700,000
265 - 273 Days maturity	529,600,000	155,750,000
	589,825,000	297,450,000
Unearned interest	(101,344,999)	(41,755,105)
Amount of treasury bills paid	488,480,001	255,694,895
Interest income recognized to profit or loss	59,712,499	34,485,980
Treasury bills balance	548,192,500	290,180,875

The group has adopted 12-month ECL approach, based on management assessment, there will be immaterial impact on treasury bills due to the following factors:

- It is issued and guaranteed by Government of Egypt.
- Treasury bills are dominated in EGP currency so there is no currency risk.
- There is no history of default.
- Incorporating forward-looking information would not result in an increase in Expected default rate.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

13. Cash and bank balances

	2019	2018
Bank deposits – EGP	-	642,669
Cash at banks and on hand	153,615,452	62,937,076
Cash and bank balances (excluding bank overdrafts)	153,615,452	63,579,745

The average interest rate on local currency time deposits was 31 December 2019: 13.25%
Bank deposits have maturity dates less than 3 months from date of the deposit.

For the purpose of preparation of the cash flow statements, cash and cash equivalents consists of:

	2019	2018
Cash and bank balances	153,615,452	63,579,745
Treasury bills with maturities of 3 months or less	60,018,881	135,136,321
Bank overdraft (Note 20)	(120,096,127)	(19,126,567)
Total	93,538,206	179,589,499

14. Borrowings

	2019			2018		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
Loans	185,887,584	605,756,771	791,644,355	211,049,595	495,564,577	706,614,172
	185,887,584	605,756,771	791,644,355	211,049,595	495,564,577	706,614,172

The due dates for short term portion loans according to the following schedule:

	2019	2018
Balance due within 1 year	178,908,863	202,757,443
Accrued interest	6,978,721	8,292,152
	185,887,584	211,049,595

(1) Edita Food Industries Company

	2019			2018		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
First loan	-	-	-	9,447,260	-	9,447,260
Second loan	41,342,460	-	41,342,460	45,226,910	30,451,671	75,678,581
Third loan	19,489,438	18,000,000	37,489,438	20,587,500	36,000,000	56,587,500
Fourth loan	38,467,668	55,939,553	94,407,221	41,154,405	99,448,641	140,603,046
Fifth loan	56,797,975	170,053,819	226,851,794	60,986,236	245,006,121	305,992,357
Sixth loan	11,169,415	11,027,159	22,196,574	14,787,355	29,574,710	44,362,065
Seventh loan	8,765,387	12,936,240	21,701,627	10,833,374	27,083,434	37,916,808
Eighth loan	1,461,794	283,184,000	284,645,794	-	-	-
Total	177,494,137	551,140,771	728,634,908	203,023,040	467,564,577	670,587,617

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Borrowings (continued)

The due short term portion loans according to the following schedule:

	2019	2018
Balance due within 1 year	170,908,863	194,757,443
Accrued interest	6,585,274	8,265,597
Total	177,494,137	203,023,040

Borrower	Type of debt	Guaranties	Currency	Interest rate
First loan	Loan	Cross corporate guarantee Digma Trading Company with an amount of LE 70,000,000	EGP	1 % above lending rate of Central Bank of Egypt.
Second loan	Loan	Cross corporate guarantee Digma Trading Company amounted to LE 185,000,000	EGP/USD	1% above mid corridor rate of Central Bank of Egypt and 2.5% above the Libor rate 3 months.
Third loan	Loan	Cross corporate guarantee Digma Trading Company amounted to LE 90,000,000	EGP	1 % above lending rate of Central Bank of Egypt.
Fourth loan	Loan	Cross corporate guarantee Digma Trading Company amounted to LE 202,234,888	EGP/USD	1% above mid corridor rate of Central Bank of Egypt and 4.5% above the Libor rate 1 month.
Fifth loan	Loan	Cross corporate guarantee Digma Trading Company amounted to LE 220,000,000 and 6,000,000 Euro	EGP/USD	0.5% above mid corridor rate of Central Bank of Egypt and average 4% above USD Libor rate 6 months.
Sixth loan	Loan		EGP/USD	1.5% above mid corridor rate of Central Bank of Egypt and 3.85% above the USD Libor rate 3 months.
Seventh loan	Loan		EGP/USD	.5% above mid corridor rate of Central Bank of Egypt and 3.85% above the USD Libor rate.
Eighth loan	Loan		USD	4% above the USD Libor rate – 6 months.

(2) Edita Confectionery Industries Company

	2019			2018		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
First Loan	8,054,556	16,000,000	24,054,556	8,026,555	28,000,000	36,026,555
	8,054,556	16,000,000	24,054,556	8,026,555	28,000,000	36,026,555

The due short-term portion is according to the following schedule:

	2019	2018
Balance due within 1 year	8,000,000	8,000,000
Accrued interest	54,556	26,555
	8,054,556	8,026,555

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Borrowings (continued)

The company obtained a loan from a financial institution on December 2017 based on a cross guarantee issued from Edita Food Industries Company amounted to LE 40,000,000. The loan outstanding balance at 31 December 2019 after payment of due instalments amounted to LE 24,000,000 in addition to accrued interests.

Terms of payments:

Edita Confectionary Industries S.A.E. is obligated to Pay LE 24,000,000 on 6 equal semi-annual instalments; the next instalment is due on 30 June 2020 and the last on December 2022.

Interest:

The rate is 0.5% above Central Bank of Egypt Lending.

Fair value:

Fair value is approximately equal to book value.

(3) Edita Participation Limited

	2019			2018		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
First Loan	338,891	38,616,000	38,954,891	-	-	-
	338,891	38,616,000	38,954,891	-	-	-

The due short term portion is according to the following schedule:

	2019	2018
Balance due within 1 year	-	-
Accrued interest	338,891	-
	338,891	-

First Loan:

On June 2019, the group signed an agreement with a financial institution to obtain a loan amounting to USD 20,000,000. The loan outstanding amounts for Edita Participation Limited was USD 2,400,000 as of 31 December 2019.

Terms of payments:

The company is obligated to pay USD 2,400,000 on 10 equal semi-annual instalments; each instalment amounts to USD 240,000. The first instalment is due on May 2021 and the last on November 2025.

Interest:

The interest rate is 4% above the USD Libor rate – 6 months.

Fair value:

Fair value is approximately equal to book value.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

15. Deferred tax liability

Deferred tax represents tax expenses on the temporary differences arising between the tax basis of assets and their carrying amounts in the financial statements:

	Acquiring Digma Company for Trading			Unrealized foreign exchange loss	Net deferred tax liabilities	
	Fixed assets	Other provisions	Carry forward tax losses		2019	2018
Deferred tax assets						
Balance at 1 January	-	2,145,612	-	5,676,827	7,822,439	24,189,086
Charged to statement of profit or loss	-	2,033,528	614,380	(2,724,956)	(77,048)	(16,366,647)
Ending balance	-	4,179,140	614,380	2,951,871	7,745,391	7,822,439
Deferred tax liabilities						
Balance at 1 January	(162,896,180)	(3,094,952)	-	-	(165,991,132)	(154,141,487)
Charged to statement of profit or loss	(9,795,442)	240,436	-	-	(9,555,006)	(11,849,645)
Ending balance	(172,691,622)	(2,854,516)	-	-	(175,546,138)	(165,991,132)
Net deferred tax liabilities	(172,691,622)	4,179,140	614,380	2,951,871	(167,800,747)	(158,168,693)
Balance at 1 January	(162,896,180)	(3,094,952)	-	5,676,827	(158,168,693)	(129,952,401)
Charged to statement of profit or loss (Note 28)	(9,795,442)	240,436	614,380	(2,724,956)	(9,632,054)	(28,216,292)
Ending balance	(172,691,622)	(2,854,516)	614,380	2,951,871	(167,800,747)	(158,168,693)

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

16. Employee retirement Benefit obligations

Employees of the company are entitled upon their retirement based on a defined benefit plan. The entitlement is based on the length of service and final remuneration package of the employee upon retirement. The defined benefit obligation is calculated using the projected credit unit method takes into consideration the principal actuarial assumptions as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	15%	15%
Average salary increase rate	10%	10%
Turnover rate	35%	35%
Life table	49-52	49-52

The amounts recognized at the balance sheet date are determined as follows:

	<u>2019</u>	<u>2018</u>
Present value of obligations	11,600,000	6,621,193
Liability at the balance sheet	<u>11,600,000</u>	<u>6,621,193</u>

Movement in the liability recognized in the balance sheet:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	6,621,193	4,761,965
Charged during the year (Note 26)	6,673,286	3,304,046
Paid during the year	(1,694,479)	(1,444,818)
Balance at end of the year	<u>11,600,000</u>	<u>6,621,193</u>

The amounts recognized in the statement of profit or loss are determined as follows:

	<u>2019</u>	<u>2018</u>
Interest expenses	993,179	714,295
Current service cost	5,680,207	2,589,751
Total	<u>6,673,386</u>	<u>3,304,046</u>

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

17. Lease liability

	<u>2019</u>
Commitments in relation to leases are payable as follows:	
Within one year	9,416,552
Later than one year	56,100,455
Later than five years	52,756,420
Minimum lease payments	<u>118,273,427</u>
The present value of lease liabilities is as follows:	
Within one year	7,576,894
Later than one year	37,136,592
Later than five years	19,156,713
Present Value of Minimum Lease Payments	<u>63,870,199</u>

18. Trade and other payables

	<u>2019</u>	<u>2018</u>
Trade payables	203,651,206	161,860,602
Accrued expenses	129,639,242	109,035,729
Notes payable	128,454,135	99,954,460
Other credit balances	21,443,493	14,235,281
Taxes payable	39,573,804	42,234,785
Social insurance	6,757,022	5,071,344
Dividends payable	1,633,863	2,953,395
Contract liabilities – accrued rebates	7,989,057	6,800,000
Contract liabilities – Advances from customers	5,183,186	18,259,750
Total	<u>544,325,008</u>	<u>460,405,346</u>

Trade payables are unsecured and are usually paid within an average of 45 days of recognition.

19. Current income tax liabilities

	<u>2019</u>	<u>2018</u>
Balance at 1 January	6,633,469	-
Income tax paid during the year	(10,087,816)	(5,405,273)
Withholding tax receivable	(5,068,754)	(9,433,362)
Income tax for the year (Note 28)	120,997,681	79,464,788
Corporate income tax – advance payments	(34,618,800)	(55,862,730)
Tax on Treasury bills	(12,679,087)	-
Accrued interest – advance payments	(1,990,581)	(2,129,954)
Balance at end of year	<u>63,186,112</u>	<u>6,633,469</u>

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

20. Bank overdraft

	<u>2019</u>	<u>2018</u>
Bank overdraft	120,096,127	19,126,567
Total	<u>120,096,127</u>	<u>19,126,567</u>

Bank overdraft is an integral part of the Company's cash management to finance its working capital. The average interest rate for bank overdraft was 13.25 % as of 31 December 2019 (2018: 17.17%).

21. Provisions

	<u>Other provisions</u>	
	<u>2019</u>	<u>2018</u>
Balance at 1 January	29,270,866	20,910,445
Additions during the year (Note 26)	7,482,340	12,828,759
Utilized during the year	(9,995,304)	(4,277,817)
Provision no longer required	(5,536,057)	(190,521)
Balance at end of year	<u>21,221,845</u>	<u>29,270,866</u>

Other provisions relate to claims expected to be made by a third party in connection with the Group's operations. The information usually required by the International Financial Reporting Standards is not disclosed because the management believes that to do so would seriously prejudice the outcome of the negotiation with that party. These provisions are reviewed by management every year and the amount provided is adjusted based on latest development, discussions and agreements with the third party.

22. Share capital

Authorized capital LE 360,000,000 (1,800,000,000 share, par value LE 0.2 per share).

The issued and paid up capital amounted to LE 72,536,290 after trading distributed on 362,681,450 shares (par value LE 0.2 per share) are distributed as follow:

<u>Shareholders</u>	<u>No. of shares</u>	<u>Shares value</u>	<u>Percentage of ownership</u>
Berco Ltd.	151,654,150	30,330,830	41.815%
Exoder Ltd.	47,056,732	9,411,346	12.975%
Africa Samba B.V.	54,402,233	10,880,447	15.000%
Others (Public stocks)	109,568,335	21,913,667	30.210%
	<u>362,681,450</u>	<u>72,536,290</u>	<u>100%</u>

On the 30 March 2016, an extra ordinary general assembly meeting was held in which the shareholders approved the increase of issued and paid up capital from 72,536,290 EGP to be 145,072,580 EGP. An increase amounted to 72,536,290 EGP distributed on 362,681,450 shares with a par value of LE 0.2 per share financed from the dividends of the year ended 31 December 2015 distributed as a free share for each original share which has been registered in the commercial register on 9 May 2016.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Share capital (continued)

The issued capital amounted to LE 145,072,580 (par value LE 0.2 per share) is distributed as follows as of 31 December 2018:

Shareholders	No. of shares	Shares value	Percentage of ownership
Quantum Investment BV	303,308,300	60,661,660	41.815%
The Bank of New York Mellon "depository bank for shares traded in London Stock Exchange"	157,526,845	31,505,369	21.717%
Exoder Ltd.	94,769,464	18,953,893	13.065%
Kingsway Fund Frontier Consumer Franchises	31,639,252	6,327,850	4.362%
The Genesis group trust	11,452,175	2,290,435	1.579%
Others (Public stocks)	126,666,864	25,333,373	17.462%
	725,362,900	145,072,580	100%

The issued capital amounted to LE 145,072,580 (par value LE 0.2 per share) is distributed as follows as of 31 December 2019:

Shareholders	No. of shares	Shares value	Percentage of ownership
Quantum Investment BV	303,308,300	60,661,660	41.815%
The Bank of New York Mellon "depository bank for shares traded in London Stock Exchange"	93,285,610	18,657,122	12.861%
Kingsway Fund Frontier Consumer Franchises	80,741,242	16,148,248	11.131%
Others (Public stocks)	248,027,748	49,605,550	34.193%
	725,362,900	145,072,580	100%

23. Legal reserve

In accordance with Companies Law No. 159 of 1981 and the Company's Articles of Association, 5% of annual net profit is transferred to the legal reserve. The Company may stop such transfers when the legal reserve reaches 50% of the issued capital. The reserve is not eligible for distribution to shareholders.

24. Non-controlling interest

Transaction with non-controlling interest

On 6 March 2019, the company signed an official agreement with Confindel LTD for the acquisition of 2,279,287 shares (22.27%) which is their total ownership in Edita Confectionary Industries for the total consideration of EGP 55,297,782. The acquisition was completed in June of 2019 and accordingly Edita Food Industries' share in Edita Confectionary Industries increased from 77.71% to 99.98%. The effect on the equity attributable to the owners of Parent during the year is summarised as follows:

	2019
Carrying amount of non-controlling interest acquired	23,165,685
Consideration paid to non-controlling interest	(55,297,783)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	(32,132,098)

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Non-controlling interest (continued)

	Share capital	Legal reserves	Revaluation assets reserve	Currency translation differences	(Accumulated losses)/retained earning	Total
	2019	2019	2019	2019	2019	2018
Balance at 1 January	22,823,330	593,605	38,162	-	340,835	21,800,103
Non-controlling share in profit of subsidiaries	-	-	-	-	(933,272)	2,157,644
Currency translation differences	-	-	-	(996,523)	-	-
Total comprehensive income for the year	-	-	-	(996,523)	(933,272)	2,157,644
Non-controlling interest share in establishment of subsidiary	37,693,675	-	-	-	-	-
Purchase of non-controlling interest share in subsidiary	(22,792,870)	-	-	-	(372,815)	-
Dividends distribution to non-controlling interests in subsidiaries	-	-	-	-	(173,430)	(161,815)
Balance at end of year	37,724,135	593,605	38,162	(996,523)	(1,138,682)	23,795,932



EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

25. Other income

	<u>2019</u>	<u>2018</u>
Other income	4,585,548	2,917,666
Export subsidies	7,073,190	4,812,012
Net	<u>11,658,738</u>	<u>7,729,678</u>

26. Other losses, net

	<u>2019</u>	<u>2018</u>
Provision for slow moving inventory	(2,136,834)	(4,694,415)
Other Provisions (Note 21)	(7,482,340)	(12,828,759)
Provision for employee benefit obligation (Note 16)	(6,673,286)	(3,304,046)
Provision no longer required	5,536,057	219,292
Gain from sales of property, plant and equipment (Note 32)	7,306,759	8,794,725
Solidarity contribution	(17,776,344)	(7,837,229)
Impairment loss (Note 5)	(16,593,500)	-
Dividends tax	(4,327,079)	(4,037,090)
Net	<u>(42,146,567)</u>	<u>(23,687,522)</u>

27. Finance cost - net

	<u>2019</u>	<u>2018</u>
Finance income		
Interest income	61,897,019	35,950,048
Interest income – corporate tax advance payment	1,990,581	2,129,954
Foreign exchange gains from financing activities	29,880,928	234,041
	<u>93,768,528</u>	<u>38,314,043</u>
Finance cost		
Interest expense	(106,998,119)	(122,329,790)
	<u>(106,998,119)</u>	<u>(122,329,790)</u>
Finance cost - net	<u>(13,229,591)</u>	<u>(84,015,747)</u>

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

28. Income tax expense

The Company is subject to the corporate income tax according to tax law No. 91 of 2005 and its amendments No. 96 of 2015.

	<u>2019</u>	<u>2018</u>
Income tax for the year (Note 19)	120,997,681	79,464,788
Reversal of income tax from prior year		-
Deferred tax expense for the year (Note 15)	9,632,054	28,216,292
Total	<u>130,629,735</u>	<u>107,681,080</u>
Profit before tax	<u>492,917,336</u>	<u>411,331,513</u>
Tax calculated based on applicable tax rates	110,906,401	92,549,590
	<u>110,906,401</u>	<u>92,549,590</u>
Tax effect of non-deductible expenses	21,623,698	16,845,936
Tax losses for which no deferred income tax asset was recognized	(1,900,364)	(1,714,446)
Income tax expense	<u>130,629,735</u>	<u>107,681,080</u>
Effective tax rate	<u>26.5%</u>	<u>26%</u>

The increase in the effective tax rate in 31 December 2019 is due to the increase in non-deductible expenses during the year.

29. Revenue from contracts with customers

A. Disaggregation of revenue from contracts with costumers

The Group derives revenue from the transfer of goods at a point in time. The Group disaggregate revenue by products line as disclosed in note (37) segment reporting.

B. The Group has recognised the following contracts' liabilities

	<u>2019</u>	<u>2018</u>
Contract liabilities – accrued rebates	7,989,057	6,800,000
Contract liabilities – advances from customers	5,183,186	18,259,750
Total contract liabilities	<u>13,172,243</u>	<u>25,059,750</u>

C. The decrease in contracts' liabilities is due to the decrease in the advances payments made by the export customers during the year.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

30. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent Company by the weighted average number of ordinary shares in issue during the year.

	<u>2019</u>	<u>2018</u>
Profit attributed to owners of the parent	363,220,873	301,492,789
Weighted average number of ordinary shares in issue		
Ordinary shares	<u>725,362,900</u>	<u>725,362,900</u>
	725,362,900	725,362,900
Basic earnings per share	<u>0.50</u>	<u>0.42</u>

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company does not have any categories of dilutive potential ordinary shares, hence the diluted earnings per share is the same as the basic earnings per share.

31. Expenses by nature

	<u>2019</u>	<u>2018</u>
Cost of sales	2,602,963,051	2,565,067,553
Distribution cost	593,990,396	444,026,080
Administrative expenses	291,683,948	256,025,396
	<u>3,488,637,395</u>	<u>3,265,119,029</u>
Raw materials used	2,000,791,962	2,030,438,835
Salaries and wages	504,226,799	438,229,441
Advertising and marketing	245,519,331	162,972,463
Depreciation and amortization	160,492,946	141,837,267
Gas, water and electricity	95,887,850	84,374,284
Miscellaneous and other expense	115,100,748	92,933,379
Employee benefits	87,861,744	82,091,450
Rent	67,234,530	57,899,840
Profit share employee	44,136,969	33,245,392
Transportation expenses	50,202,704	39,249,215
Maintenance	42,767,338	32,475,541
Vehicle expense	45,955,848	37,942,228
Consumable materials	28,458,626	23,218,048
Purchases – goods for resale	-	8,211,646
	<u>3,488,637,395</u>	<u>3,265,119,029</u>

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

32. Cash generated from operations

	2019	2018
Profit for the year before income tax	492,917,336	411,331,513
Adjustments for:		
Provisions	7,482,340	12,828,759
Provision for employee retirement benefit obligation	6,673,286	3,304,046
Interest expense	106,998,119	122,329,790
Interest income	(61,897,019)	(35,950,048)
Interest income – corporate tax advance payment	(1,990,581)	(2,129,954)
Depreciation and amortization	160,492,946	141,837,267
Impairment loss	16,593,500	-
Provision for slow moving inventory	2,136,834	4,694,415
Gain on disposal of property, plant and equipment	(7,306,759)	(8,794,725)
Provision no longer required	(5,536,057)	(219,291)
Foreign exchange (gain)	(25,161,352)	(714,366)
	691,402,593	648,517,406
Change in working capital		
Inventories	(5,292,399)	3,917,992
Trade and other receivables	(76,013,768)	(59,250,775)
Trade and other payables	83,919,662	60,006,418
Provisions used	(13,431,823)	(5,678,362)
Payments of employee benefit obligations	(1,694,479)	(1,444,818)
Cash generated from operations	678,889,786	646,067,861

Net debt reconciliation

	2019	2018
Cash and cash equivalent	93,538,206	179,589,499
Borrowings – repayable within one year	(185,887,584)	(211,049,595)
Borrowing – repayable within after one year	(605,756,771)	(495,564,577)
Total	(698,106,149)	(527,024,673)

	Cash and cash equivalent	Borrowing due within 1 year	Borrowing due after 1 year	Total
Net debt as at 1 January 2019	179,589,499	(211,049,595)	(495,564,577)	(527,024,673)
Cash flows	(84,290,251)	17,548,876	(128,286,066)	(195,027,441)
Foreign exchange adjustment	(1,761,042)	7,613,135	18,093,872	23,945,965
Net debt as at 31 December 2019	93,538,206	(185,887,584)	(605,756,771)	(698,106,149)

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Cash generated from operations (continued)

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	<u>2019</u>	<u>2018</u>
Net book amount	1,525,061	1,047,482
Profit of disposal of property, plant and equipment	7,306,759	8,794,725
Proceeds from disposal of property, plant and equipment	8,831,820	9,842,207

33. Related parties

The Group entered into several transactions with companies and entities that are included within the definition of related parties, as stated in IAS 24, "Disclosure of related parties". The related parties comprise the Group's board of directors, their entities, companies under common control, and/ or joint management and control, and their partners and employees of senior management. The partners of joint arrangement and non-controlling interest are considered by the Group as related parties. The management decides the terms and conditions of transactions and services provided from/ to related parties, as well as other expenses.

Key management compensation

During the year ended 31 December 2019, the group paid an amount of LE 85,259,207 as benefits to the key management members (2018: LE 77,501,463).

	<u>2019</u>		<u>2018</u>	
	<u>Non-executive / independent board members</u>	<u>Key management personnel</u>	<u>Non-executive / independent board members</u>	<u>Key management personnel</u>
Salaries and compensation	2,700,000	78,725,649	2,250,000	72,114,608
Allowances	2,380,000	1,282,200	2,160,000	882,233
Other benefit		171,358	-	94,622

34. Tax position

Due to the nature of the tax assessment process in Egypt, the final outcome of the assessment by the Tax Authority might not be realistically estimated. Therefore, additional liabilities are contingent upon the tax inspection and assessment of the Tax Authority. Below is a summary of the tax status of the group as of the date of the financial statements date.

Edita Food Industries Company

a) Corporate tax

- The company is tax exempted for a period of 10 years ending 31 December 2007 in accordance with Law No. 230 of 1989 and Law No. 59 of 1979 related to New Urban Communities. The exemption period was determined to start from the fiscal year beginning on 1 January 1998. The company submits its tax returns on its legal period.
- The tax inspection was performed for the period from the company's inception till 31 December 2012 and all due tax amounts paid.
- For the years 2013-2016; the company finalized the tax inspection and the difference was transferred to an internal committee.
- For the years 2017 – 2018 the Company submitted the tax return according to law No. 91 of 2005 in its legal period and has not been inspected yet.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Tax position (continued)

b) Payroll tax

- The payroll tax inspection was performed till 31 December 2014 and company paid tax due.
- As for the years 2015 till 2019 the tax inspection has not been performed and the company is submitting the quarterly tax return on due time to the Tax Authority.

c) VAT & Sales tax

- The sales tax inspection was performed till 31 December 2015 and tax due was paid.
- For the years 2016 till 2018 the tax inspection has been performed and the difference was transferred to an internal committee.

d) Stamp duty tax

- The stamp duty tax inspection was performed till 2013 and company paid tax due.
- Years from 2014 till 2019 tax inspection has not been performed.

Digma for Trading Company

a) Corporate tax

- The Company is subject to the corporate income tax according to tax law Law No, 91 of 2005 and amendments.
- The tax inspection was performed by the Tax Authority for the year from the Company's inception until year 2014 and the tax resulting from the tax inspection were settled and paid to the Tax Authority.
- For the years from 2015 to 2018 Company submits its tax returns on due dates according to law No, 91 for the year 2005.

b) Payroll tax

- The tax inspection was performed until 31 December 2012 and the tax resulting from the tax inspection and assessment were settled and paid to the Tax Authority.
- For the years from 2013 to 2019 the Company submitted its quarter tax returns to Tax Authority on due dates.

c) VAT & Sales tax

- The tax inspection was performed until 31 December 2015 and the tax resulting from the tax inspection and assessment were settled and paid to the Tax Authority.
- The years 2016-2019 the Company submits its monthly sales tax return on due date.

d) Stamp tax

- The tax inspection was performed for the year from the Company's inception until 31 December 2016 and the tax resulting from the tax inspection and assessment were settled and paid to the Tax Authority
- For the years 2017 and 2019 the Company paid the tax due.

Edita Confectionary Industries Company

a) Corporate tax

- The Company is subject to the corporate income tax according to tax Law No. 91 of 2005 and adjustments.
- The corporate tax inspection was performed for the years from 2009 to 2014 and the company objected the estimated tax amount. And the company is in the process of reinspection.
- The company hasn't been inspected for the years from 2015 to 2018 and the Company submitted its tax returns to Tax Authority on due dates.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Tax position (continued)

b) Payroll Tax

- The payroll tax inspection was performed for the years from 2009 to 2012 and the tax due was paid to the Tax Authority.
- The company hasn't been inspected for the year from 2013 to 2019.

c) VAT & Sales Tax

- The tax inspection was performed for the year from the Company's inception until 2018 and the tax resulting from the tax inspection and assessment were settled and paid to the Tax Authority.
- The company hasn't been inspected for 2019 and the Company submits its monthly sales tax return on due date.

d) Stamp Tax

- The stamp tax inspection was performed from 2009 to 2014 and the tax due was paid to the Tax Authority.
- The Company has not been inspected for the year from 2015 to 2019.

35. Contingent liability

(1) Edita Food Industries Company

The Company guarantees Digma for trading company and Edita confectionary Industries against third parties in borrowing from Egyptian Banks.

The Company had contingent liabilities in respect of letters of guarantee and letters of credit arising from ordinary course of business which resulted in no actual liabilities amounted to LE 40,632,491 as at 31 December 2019 (2018: LE 75,016,958).

(2) Digma for Trading Company

The Company guarantees Edita Food Industries against third parties in borrowing from Egyptian Banks.

At 31 December 2019, the Company had contingent liabilities in respect of letters of guarantee and letters of credit arising from ordinary course of business which resulted in no actual liabilities is nil as at 31 December 2019 (2018: LE 1,537,277).

(3) Edita Confectionary Industries Company

At 31 December 2019, the Company had contingent liabilities in respect of letters of guarantee and letters of credit arising from ordinary course of business which resulted in no actual liabilities at 31 December 2019 amounted to LE 806,302 (2018: LE 1,617,068).

36. Commitments

Capital commitments

The Group has capital commitments as of 31 December 2019 of EGP 108.7 M (2018: 44.6 M) in respect of the capital expenditure.

EDITA FOOD INDUSTRIES (S.A.E.) AND ITS SUBSIDIARIES

Notes to the consolidated financial statements - For the year ended 31 December 2019

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

Segment reporting (continued)

The segment information disclosed in the table above represents the segment information provided to the chief operating decision makers of the Group.

- Management has determined the operating segments based on the information reviewed by the chief operating decision makers of the group who is the chief executive officer for the purpose of allocating and assessing resources.
- The chief operating decision makers consider the business from products perspective. Although Rusks, Wafer, and Candy do not meet the quantitative threshold required by IFRS 8 for reportable segments, management has concluded that these segments should be reported as it is closely monitored by the chief operating decision makers as it is expected to materially contribute to the Group revenue in the future.
- The chief operating decision makers assesses the performance of the operating segments based on their operating profit.
- There were no inter-segment sales made during the year.
- Finance income and finance cost are not allocated to segments, as this type of activity is driven by the central treasury function which manage the cash position of the group.

38. Earnings before interest, taxes, depreciation and amortization

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measure and disclosure by other entities.

The information disclosed in the table below represents the earnings before interest, taxes, depreciation & amortization according to the internal reports prepared by the group's management, and the earnings before interest, taxes, depreciation & amortization for the yearends 31 December 2019 & 31 December 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Net profit for the year	362,287,601	303,650,433
Income tax	130,629,735	107,681,080
Dividends distribution tax	4,327,079	4,037,090
Debit interest	106,998,119	122,329,790
Credit interest	(63,887,600)	(38,080,002)
Gain on sale of property, plant and equipment	(7,306,759)	(8,794,725)
Foreign exchange (gain) / loss	(29,880,928)	(234,041)
Donation	848,370	930,000
Other provision addition	6,999,995	3,000,000
Depreciation and amortization	177,086,448	141,837,267
Solidarity Contribution	17,776,244	7,837,229
Total	<u>705,878,304</u>	<u>644,194,121</u>