

Union Properties
Public Joint Stock Company
and its subsidiaries

Consolidated financial statements
31 December 2018

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated financial statements

31 December 2018

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Directors' report

The Directors have the pleasure of presenting their report together with the audited consolidated financial statements of Union Properties Public Joint Stock Company and its subsidiaries ("the Group") for the year ended 31 December 2018.

Financial results

The Group income for 2018 reached to AED 764 million (2017: AED 640 million) and gain on valuation of properties of AED 86 million (2017: loss on valuation of properties of AED 2,076 million) resulting a total profit of AED 62.3 million (2017: total loss of AED 2,375 million) and total comprehensive income amounted to AED 452 million (2017: total comprehensive loss of AED 2,375 million).

The Directors propose the following appropriations from retained earnings:

- According to the UAE Federal Law No.2 of 2015, 10% of net income amounting to AED 6.2 million (2017: nil) has been transferred to the Statutory Reserve.
- The equity attributable to the shareholders of the Company as at 31 December 2018 amounted to AED 3,107 million (2017: AED 2,655 million) an increase by 17%.

Directors

The Board of Directors comprised of:

Mr. Naser Butti Omair Bin Yousef	Chairman
H.E Hamad Abdulla Mohamed Abdulla AlMass	Vice Chairman
Mr. Ahmed Yousef Abdulla Hussain Khouri	Director
Mr. Khalifa Hasan Ali Saleh Alhammadi	Director
Mr. Mohamed Abdelaziz Ali Abdalla AlOwais	Director
Mr. Rishi Raj	Director
NBB Capital Investment LLC, represented by Mr. Ahmed Mostafa Eldmnhoury	Director

Auditors

M/s. EY were appointed as auditors of the Company for the year ended 31 December 2018 at the Annual General Meeting held on 19 April 2018. M/s. EY are eligible for re-appointment for 2019 audit and have expressed their willingness to continue as auditors of the Company for 2019.

On behalf of the Board

Hamad Abdulla Mohamed Abdulla AlMass
Vice Chairman
Dubai

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Union Properties PJSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualification – limitation of scope

As permitted by IAS 16 – Property, Plant and Equipment, the group has changed its accounting policy for land in property, plant and equipment to a revaluation model. As disclosed in note 8.2 a revaluation was undertaken by an independent valuer which resulted in a revaluation gain of AED 390 million reflected in equity. We were provided with the valuation report and access to the valuer but were not able to obtain enough observable data to support some of the assumptions regarding future cash flows.

As a result of this matter we were unable to determine whether any adjustments were required to the carrying amount of property, plant and equipment and the revaluation gain recognised during the year in the revaluation reserve.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 12 March 2018.

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

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

Key audit matters	How our audit addressed the key audit matters
<p>First year audit</p> <p>The consolidated financial statements of the Group as at and for the financial year ended 31 December 2018 were the first one being subject to our audit.</p> <p>Initial audits include a number of elements which are not performed in recurrent audits conducted on a regular basis. These additional procedures include in particular planning activities which are intended to enable an appropriate audit strategy to be determined for the consolidated financial statements. Specifically, these can include:</p> <ul style="list-style-type: none"> • Assessment of the audit working papers of the previous auditor in order to obtain sufficient and appropriate audit evidence about the opening balance sheet; • Evaluation of consistent application of the accounting policies; • Obtaining insight into the Company and its subsidiaries and operational activities, including its internal control environment, to enable an appropriate audit strategy to be defined; and • Performance of analyses in order to evaluate the assumptions made by management in the previous financial year. <p>As the audit of the opening balance sheet and obtaining sufficient insight into the Group were important elements in our first-year audit, we deemed these both a key audit matter.</p>	<p>We prepared a detailed transition plan to enable us to analyse the strategy, risks, internal control measures and their impact on the Group's accounting policies. This transition plan included, among other things:</p> <ul style="list-style-type: none"> • Initiating meetings with key personnel responsible for financial reporting of the Group as well as meetings with members of the audit team, including internal and external specialists planned to be involved in the audit procedures; • Cooperation with the previous auditor, including review and evaluation of prior year working-papers to obtain reasonable assurance on the opening balances as well as discussions of key audit matters of the Group, as prescribed by our professional standards; • Understanding of the Group's operations, its business environment and key risk areas related to its operations; • Gaining an understanding of the control environment in the Company and entities within the Group and testing of selected controls in relation to individual processes; • Understanding of the accounting policies of the Group and assessing the continuity of their application; • Understanding of key areas of estimation and professional judgement of the Group's management; and • Assessment of the main audit issues from the previous reporting period and their impact on the consolidated financial statements for the current financial year.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Valuation of Investment Properties</i></p> <p>We identified the valuation of investment properties as a key audit matter due to the significance of the Group's investment properties in the context of the Group's consolidated financial statements as a whole and because significant judgement is involved in determining the inputs used in the valuation.</p> <p>As at 31 December 2018, the Group's investment properties amounted to AED 4,211 million which represented 67% of the Group's total assets. Increase in fair value of investment properties of AED 86.4 million was recognized in profit or loss for the year then ended.</p> <p>The Group's investment properties are stated at fair value based on valuations carried out by an independent qualified valuer (the "Valuer"). The valuation was dependent on certain key estimates which requires significant judgement, including discount rates, yield rates, contractual lease rent and forecasted operating expenses, which are influenced by prevailing market forces and specific characteristics such as property location, income return, growth rate and occupancy rate of each property in the portfolio. Comparable transactions are also a key input. Details of the valuation methodology and key inputs used in the valuations are disclosed in note 9.8 to the consolidated financial statements.</p>	<p>We have performed the following procedures in relation to the valuation of the investment properties:</p> <ul style="list-style-type: none"> • We evaluated the competence, capabilities and objectivity of the Valuer; • We assessed the appropriateness and reasonableness of the valuation methodologies, key assumptions and estimates used in the valuations on a sample basis. We involved our internal property valuation specialists to assist in the assessments; and • We assessed the completeness and consistency of information provided by the Group to the Valuer; and evaluated the accuracy of the key inputs used in the valuation on a sample basis.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Valuation of Land Under Property, Plant and Equipment</i></p> <p>Included under property, plant and equipment is land located in MotorCity with a carrying amount of AED 429 million at 31 December 2018. As stated in notes 3.2 and 8.2 to the consolidated financial statements, the Group changed the accounting policy with respect to the measurement of land under property, plant and equipment in 2018 on a prospective basis, which resulted in a change in fair value of AED 390 million recorded in OCI in 2018. The land was previously carried at cost.</p> <p>Valuation of land is a key audit matter due to its financial magnitude and judgement involved in the assessment of the fair value of the asset. The judgment relates to the valuation methodologies used and the assumptions included in each of those methodologies.</p> <p>The Group's land under property, plant and equipment is stated at fair value based on a valuation carried out by independent qualified valuers (the "Valuers"). The valuation was dependent on certain key estimates which requires significant judgement and estimates including discount rate, forecasted cash flows and future capital expenditures, which are influenced by prevailing market forces and specific characteristics such as growth rates. Details of the valuation methodology and key inputs used in the valuations are disclosed in note 8.2 to the consolidated financial statements.</p>	<p>As part of our audit procedures, we assessed the competence, objectivity and independence of the Valuers used. We reviewed the valuation report and assessed whether the valuation approach was in accordance with professional valuation standards and suitable for determining the fair value of land. We involved our internal property valuation specialists to assist in the assessment.</p> <p>We assessed whether the increase in valuation was correctly accounted for within the revaluation reserve and consolidated statement of profit or loss and other comprehensive income.</p> <p>We assessed the adequacy of the disclosure.</p> <p>We have qualified our opinion in respect of this matter.</p>

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Allowance for Expected Credit Losses of Trade Receivables</i></p> <p>As stated in note 14 to the consolidated financial statements, at the year-end, the Group had trade receivables of 1,970 million before allowance for expected credit losses of AED 1,805 million.</p> <p>Furthermore, and as stated in note 3.2 to the consolidated financial statements, the Group adopted IFRS 9 in the current year, which has fundamentally changed the Group's accounting for impairment losses for financial assets, and more specifically, for trade receivables.</p> <p>The key management assumptions note in the consolidated financial statements sets out the basis on which the Group performs impairment analysis, including the related estimates for the calculations of expected credit losses. This involves judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.</p> <p>We focused on this area because it requires a high level of management judgement and due to the materiality of the amounts involved.</p>	<p>We assessed the Group's provisioning policy applied in 2018 on the current and prior year balances of trade receivables, which included assessing whether the calculation was in accordance with IFRS 9 and comparing the Group's provisioning rates against historical collection data. We assessed whether the time value of money was considered in the expected credit loss impairment model and checked the mathematical accuracy of the calculations.</p> <p>We assessed the adequacy of the Group's disclosures in relation to trade receivables included in the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Repayment of interest-bearing loans and borrowings</i></p> <p>Interest-bearing liabilities as at 31 December 2018 amount to AED 1,776 million as stated in note 2.8 to the consolidated financial statement, which represent 56% of the total liabilities and the repayment obligations for 2019 is AED 1,213 million. Compliance with the financing covenants and monitoring the liquidity position are important aspects for our audit since they can impact the Group's ability to repay its obligations.</p> <p>The Group has prepared a cash flow forecast which involves judgements and estimations based on management's input of key variables and market conditions including the future economic conditions, and increased competition. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.</p>	<p>We evaluated the assumptions applied by the management for preparing the covenant and liquidity forecasts, as well as the sensitivity analyses prepared in this context. We did this evaluation with reference to approved budgets and the underlying substantiations. We also performed a retrospective evaluation of prior covenants and liquidity forecasts.</p> <p>We evaluated management's future cash flow forecasts, and the process by which they were prepared, and tested the underlying key assumptions such as expected cash inflow from property rental and sales and cash outflow from capital expenditures and operating expenses. We tested the inputs and assumptions used in the cash flow forecast against historical performance, economic and industry indicators, and the Group's strategic plans.</p>

Other Information

Other information consists of the information included in the Directors' report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of the Management and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that, with the exception of the matter reporting in the basis of qualification section of our report:

- i) We have obtained all the information we considered necessary for the purposes of our audit;
- ii) The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Articles of Association of the Company;
- iii) The Company has maintained proper books of account;
- iv) The financial information included in the Directors' report is consistent with the books of account of the Company;
- v) The Group's investments in shares or stocks during the year ended 31 December 2018 are disclosed in Notes 11 and 24 to the consolidated financial statements;
- vi) Note 15 reflects material related party transactions and the terms under which they were conducted;
- vii) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and
- viii) Note 32 reflects social contributions made during the year.

For Ernst & Young

Anthony O'Sullivan
Partner
Registration number: XXX

___ March 2019

Dubai, United Arab Emirates

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

		2018	2017
	<i>Notes</i>	AED'000	AED'000
Revenue from contracts with customers	5	500,988	484,607
Net loss on financial instruments at FVTPL	11	(1,787)	(1,619)
Gain on disposal of a joint venture	24	125,014	-
Share of profit of equity accounted investees	24	16,380	3,580
Gain/(loss) on valuation of properties, net	9	86,404	(2,075,698)
Finance income		4,102	10,705
Other income	7	119,700	142,557
Direct costs	5	(382,063)	(716,218)
Administrative and general expenses	6	(282,251)	(157,279)
Finance cost		(124,158)	(65,855)
Profit/(loss) for the year attributable to the shareholders of the Company		62,329	(2,375,220)
Other comprehensive income for the year	8	390,011	-
Total comprehensive income/(loss) for the year		452,340	(2,375,220)
Basic and diluted earnings per share (AED)	26	0.015	(0.554)

The notes from 1 to 32 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 10.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of financial position

As at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	533,324	143,035
Investment properties	9	4,211,112	3,718,645
Development properties	12	7,504	8,868
Investments in associates and a joint venture	24	499,757	493,757
Non-current receivables	10	60,179	299,259
Total non-current assets		5,311,876	4,663,564
Current assets			
Investments at fair value through profit or loss	11	298,144	93,250
Inventories	12	6,571	6,359
Contract assets	13	197,835	207,671
Trade and other receivables	14	339,133	483,688
Due from related parties	15	19,277	31,223
Cash in hand and at banks	16	97,498	129,657
Total current assets		958,458	951,848
Total assets		6,270,334	5,615,412
EQUITY AND LIABILITIES			
Equity			
Share capital	22	4,289,540	4,289,540
Statutory reserve	23	332,880	326,647
Asset revaluation surplus	8	390,011	-
Accumulated losses		(1,905,273)	(1,961,369)
Total equity attributable to the shareholders of the Company		3,107,158	2,654,818
Non-current liabilities			
Non-current portion of bank loans	20	562,918	919,111
Contract liabilities	18	7,952	34,263
Provision for staff terminal benefits	21	35,447	40,464
Total non-current liabilities		606,317	993,838
Current liabilities			
Trade and other payables	17	1,254,962	1,218,856
Contract liabilities	18	88,476	105,229
Bank overdrafts	19	231,426	51,106
Current portion of bank loans	20	981,995	591,565
Total current liabilities		2,556,859	1,966,756
Total liabilities		3,163,176	2,960,594
Total equity and liabilities		6,270,334	5,615,412

These consolidated financial statements were authorised for issue by the Board of Directors on 19 March 2019

Board Member

Board Member

The notes from 1 to 32 form an integral part of these consolidated financial statements.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Operating activities			
Profit/(loss) for the year		62,329	(2,375,220)
<i>Adjustments for:</i>			
Depreciation	8	12,928	16,947
(Gain)/loss on fair valuation of investment properties	9	(86,404)	2,075,698
Share of profit of equity accounted investees	24	(16,380)	(3,580)
Provision for slow moving inventories		-	45,927
Provision for doubtful debts	29	13,264	599
Reversal of development properties provision	12	(9,420)	-
Gain on disposal of property, plant and equipment	8	-	(589)
Loss on financial instruments at FVTPL	11	1,787	1,619
Gain on disposal of a joint venture		(125,014)	-
Finance income		(4,102)	(10,705)
Finance cost		124,158	65,855
<i>Operating loss before working capital changes</i>		(26,854)	(183,449)
Change in inventories		(212)	9,261
Change in contract assets		9,836	22,378
Change in trade and other receivables		(52,281)	151,798
Change in due from related parties		11,946	(18,547)
Change in trade and other payables and contract liabilities		(16,702)	118,224
Change in due to related parties		-	(4,386)
Change in development properties		43,622	-
Change in staff terminal benefits - net		(5,017)	(14,212)
<i>Net cash (used in)/generated from operating activities</i>		(35,662)	81,067
Investing activities			
Additions to property, plant and equipment	8	(15,990)	(19,324)
Additions to investment properties	9	(32,500)	(198,906)
Additions to development properties	12	(2,792)	-
Purchase of financial instruments at FVTPL	11	(940,233)	(111,878)
Proceeds from sale of financial instruments at FVTPL	11	359,422	190,408
Dividend received		-	20,000
Proceeds from disposal of a joint venture		500,000	-
Proceeds from disposal of property, plant and equipment		-	204
Interest received		4,102	5,771
Change in deposit with banks		(31,583)	10,407
<i>Net cash used in investing activities</i>		(159,574)	(103,318)
Financing activities			
Long-term bank loans availed	20	485,110	241,892
Repayment of bank loans	20	(450,873)	(95,314)
Interest paid		(83,063)	(65,256)
<i>Net cash (used in)/generated from financing activities</i>		(48,826)	81,322
Net (decrease)/increase in cash and cash equivalents		(244,062)	59,071
Cash and cash equivalents at the beginning of the year		67,488	8,417
Cash and cash equivalents at the end of the year	16(a)	(176,574)	67,488

The notes from 1 to 32 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 10.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Asset revaluation surplus AED'000	(Accumulated losses)/retained earnings AED'000	Total AED'000
At 1 January 2017	3,971,796	326,647	313,697	-	417,898	5,030,038
Total comprehensive income for the year	-	-	-	-	(2,375,220)	(2,375,220)
Other equity movements						
Issuance of bonus shares (refer note 22)	317,744	-	-	-	(317,744)	-
Transfer of general reserve (refer note 23)	-	-	(313,697)	-	313,697	-
At 31 December 2017	4,289,540	326,647	-	-	(1,961,369)	2,654,818
At 1 January 2018	4,289,540	326,647	-	-	(1,961,369)	2,654,818
Total comprehensive income for the year	-	-	-	390,011	62,329	452,340
Other equity movements						
Transfer to statutory reserve (refer note 23)	-	6,233	-	-	(6,233)	-
At 31 December 2018	4,289,540	332,880	-	390,011	(1,905,273)	3,107,158

The notes from 1 to 32 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 10.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Union Properties Public Joint Stock Company (“the Company”) was incorporated on 28 October 1993 as a public joint stock company by a United Arab Emirates Ministerial decree. The Company’s registered office address is P.O. Box 24649, Dubai, United Arab Emirates (“UAE”).

The principal activities of the Company are investment in and development of properties, the management and maintenance of owned properties including the operation of cold stores, the undertaking of property related services on behalf of other parties (including related parties) and acting as the holding company of its subsidiaries and investing in other entities as set out in note 2.1.

The Company and its subsidiaries are collectively referred to as “the Group”.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB) and the requirements of the UAE Federal Law No. (2) of 2015.

2.2 Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost convention basis except for investment properties and investments at fair value through profit or loss that have been measured at fair value.

2.3 Comparative information

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at 1 January 2017 was not presented in these consolidated financial statements, given that the effect of the retrospective application of accounting policies as a result of the adoption of new accounting standards was not significant (note 3.2).

2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2018, as set out below:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.4 Basis of consolidation (continued)

Entity	Incorporated in	Effective ownership		Principal activities
		2018	2017	
Subsidiaries				
Thermo LLC	UAE	100%	100%	Contracting of mechanical, electrical, and plumbing works of building projects, facilities management services.
Gulf Mechanical A/C Acoustic Manufacturing (GMAMCO) LLC	UAE	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
Gmamco Trading LLC	UAE	100%	100%	Fire fighting & safety equipment trading, air condition trading, pumps, engines, valves & spare parts trading, water heaters trading, lighting equipment requisites trading.
Gmamco Saudi LLC	KSA	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
ServeU LLC	UAE	100%	100%	Facilities management, security, mechanical, electrical and plumbing works and energy management services.
Dubai Autodrome LLC	UAE	100%	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
The Fitout LLC	UAE	100%	100%	Manufacturing and interior decoration.
Thermo Saudi LLC	KSA	100%	100%	Contracting of mechanical, electrical, and plumbing works of building projects, facilities management services.
Thermo OPC	Qatar	100%	100%	Contracting of mechanical, electrical and plumbing works of building projects and facilities management services.
Union Holdings	UAE	100%	100%	Investment in equities.
UPP Capital Investment	UAE	100%	100%	Investment in equities.
Union Malls	UAE	100%	100%	Facilities management services.
UPP Investments LLC	UAE	100%	100%	Investment in equities.
Al Etihad Education	UAE	100%	100%	Investment in educational enterprises & management.
UPP International Investments LLC	UAE	100%	100%	Investment in equities.
Joint venture and associates				
Properties Investment LLC	UAE	30%	30%	Investment in and development of properties and property related activities.
Emirates District Cooling LLC	UAE	-	50%	Constructing, installing and operating cooling and conditioning systems.
Palm Hills Development PJSC	Egypt	12.47%	-	Investment in and development of properties and property related activities.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.4 Basis of consolidation (continued)

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements.

2.5 Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand ("AED'000"), except when otherwise indicated.

2.6 Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 30.

2.7 Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, and certain non-financial assets such as investment properties, at fair value at each reporting date.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.7 Fair Value Measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

The Group has an established control framework with respect to the measurement of fair values.

This includes a management team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The management team regularly reviews significant unobservable inputs and valuation adjustments.

External valuers are involved for valuation of significant assets, such as investment properties. If third party is used to measure fair values, the management team discusses with the valuer the valuation techniques and inputs to use and assesses the evidence obtained from the third party to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.8 Financial Commitments

The Group's loans and borrowings as at 31 December 2018 amounted to AED 1,776 million (AED 1,545 million of bank loans and AED 231 million of bank overdrafts). Furthermore, the Group has net current liabilities of AED 1,599 million as at the reporting date.

The management has analysed the Group's liquidity position over a period of 12 months from the reporting date. Based on the Group's available funding facilities, forecasted cash inflows from operations, contractual loan maturities, debt service costs, estimated and committed capital expenditure, and liquid investments management has not identified a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern or to meet its future obligations.

The Board of Directors has reviewed the Group's cash flow projections and concluded that the Group will be able to meet its commitments as they fall due in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

Associates and joint ventures

Associates are those entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associates and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associates and joint venture. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associates or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Associates and joint ventures (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of associates and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers

The Group is in the business of development, sale and leasing of properties as well as involved in manufacturing, contracting, trading and services activities. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 30.

Trading activities

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery.

Contracting activities

Revenue from contracts for mechanical, electrical and plumbing works as well as from interior architecture is recognised over time using an input method (note 3) to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

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

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Contracts with customers specify that the Group is liable to pay penalty or for liquidated damages if certain conditions specified in the contract are not met for reasons not attributable to the customer. This penalty amount may vary for different contracts and/or customers. When the Group identifies the existence of variable consideration, it will estimate the amount of the consideration at contract inception by using the expected value approach and recognise a liability for the expected future losses.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Contracting activities (continued)

Contract modifications

Variation orders or modifications to original contracts are common to the Group considering the long-term contracting nature of business. The terms for variation orders are defined in each contract. Generally, variations are priced by reference to the per unit rates agreed in the contract and the revised quantities required for the completion of the contract. In accordance with IFRS 15, the Group will account for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified. Alternatively, the Group will account for a contract modification as a separate contract if the scope of contract increases due to addition of distinct goods or services and price of the contract increases by an amount that reflects the Group's standalone selling prices.

Warranty obligations

The Group provides its customers warranty against defects arising from normal and/or expected usage and maintenance for a period of 1 year from the date of taking over certificates. Management assessed that 1 year warranty for defects are considered as an assurance type warranty as this warranty is necessary to ensure that the delivered products/services are as specified in the contract for a minimum period. There is no separate performance obligation for this warranty.

The extended warranty which is given by the Group for a period longer than required by the normal practice, is usually for the purpose of detecting errors or defects in the work performed and is necessary to provide assurance that the goods or services comply with the agreed upon specifications, and accordingly, such warranties are treated as assurance type warranty. Otherwise, and in rare cases, such warranty will be treated as a service type warranty and thus will be considered as a separate performance obligation.

Where warranty is considered as an assurance type warranty, the Group accrues for the cost of satisfying the warranty liability on the basis of historical experiences in accordance with the provisions of IAS 37.

Facility management, maintenance and motor racing services

Revenue from services are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group, on a fixed contract basis or using an input method to measure progress towards complete satisfaction of the service. Sponsorship fees related to motor racing events are recognised in the period in which the related event is held.

Rental income

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Revenue from sale of development properties

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

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

For performance obligations where one of the above conditions are not met, revenue from the sale of properties is recognised at the point in time at which the performance obligation is satisfied.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under the section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Cost to obtain a contract

The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense such costs (included in cost of sales) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Contract costs

Contract costs comprise direct contract costs and other costs relating to the contracting activity in general and which can be allocated to contracts. In addition, contract costs include other costs that are specifically chargeable to the customer under the terms of the contracts.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

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

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated financial statements.

Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency using the closing rate. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. All foreign currency differences are recognised in the profit or loss.

Finance income and expense

Finance income comprises interest income on fixed deposits and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in the profit or loss using the effective interest method.

Finance expense comprises interest expense on bank borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs, except to the extent that they are capitalised in accordance with the paragraph below, are recognised in the profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of qualifying asset are capitalised as part of the cost of that asset. The capitalisation of borrowing costs commences from the date of incurring of expenditure related to the asset and ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use is complete. Borrowing costs relating to the period after acquisition or construction are expensed.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Recognition and measurement

Other than land, items of property, plant and equipment are measured at cost less accumulated depreciation (refer below) and accumulated impairment losses (refer accounting policy on impairment), if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads.

At 31 December 2018, land is measured at fair value less accumulated impairment losses recognised after the date of revaluation (2017: land is measured at cost less accumulated impairment losses). Valuation is performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the consolidated statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

<i>Assets</i>	<i>Number of years</i>
Buildings and leasehold improvements	3 to 20
Plant and machinery	5 to 10
Furniture, fixtures and office equipments	2 to 4
Motor vehicles	4
Equipment and tools	2 to 3

The depreciation method, useful lives and residual values are reassessed at the reporting date.

Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses (refer accounting policy on impairment), if any, until the construction is complete. Upon completion of construction, the cost of such asset together with the cost directly attributable to construction (including borrowing costs and land rent capitalised) are transferred to the respective class of assets. No depreciation is charged on capital work-in-progress.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Investment properties

Recognition

Land and buildings owned by the Group for the purposes of generating rental income or capital appreciation or both are classified as investment properties. Properties that are being constructed or developed for future use as investment properties are also classified as investment properties. Where the Group provides ancillary services to the occupants of a property, it treats such a property as an investment property if the services are a relatively insignificant component of the arrangement as a whole.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains as an investment property, which is measured based on fair value model and is not reclassified as development property during the redevelopment with respect to as an investment property.

Measurement

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Any gain or loss arising from a change in fair value is recognised in the profit or loss. Fair values are determined based on a semi-annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee

Where the fair value of an investment property under development is not reliably determinable, such property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Transfer from development properties to investment properties

Certain properties held for sale under inventory are transferred from development properties to investment properties when those properties are either released for rental or for capital appreciation or both. The properties held for sale under development properties are transferred to investment properties at cost. Subsequent to initial recognition, such properties are valued at fair value in accordance with the measurement policy for investment properties.

Transfer from investment properties to development properties

When the use of investment properties changes to held for sale, the respective properties are transferred from investment properties to development properties at their fair values on the date of transfer, which becomes its deemed cost for subsequent accounting.

Derecognition

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section *Revenue from contracts with customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, retentions receivable, contract assets, rent receivable and due from related parties.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, including receivables from sale of real estate properties that contain a significant financing component, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and contingent consideration at fair value through profit or loss.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank in current and deposit accounts (having a maturity of three months or less and excluding deposits held under lien). Bank overdrafts that are repayable on demand and bills discounted having a maturity of three months or less form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGUs fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of one to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the consolidated statement of other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Properties held for sale

Properties held for sale are classified as inventories and stated at the lower of cost and net realisable value. Cost includes the aggregate cost of development, borrowing costs capitalised and other direct expenses. Net realisable value is estimated by the management, taking into account the expected price which can be ultimately achieved, based on prevailing market conditions.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Inventories (continued)

Properties held for sale (continued)

The amount of any write down of properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down arising from an increase in net realisable value is recognised in profit or loss in the period in which the increase occurs.

Other inventories

The cost of other inventories is based on the first-in-first-out method and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Provision

A provision is recognised in the consolidated statement of financial position when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision for contract maintenance

Provision for contract maintenance is recognised when the underlying contract enters the maintenance period. The provision is made on a case-by-case basis for each job where the maintenance period has commenced and is based on historical maintenance cost data and an assessment of all possible outcomes against their associated probabilities.

Operating lease payments

Group as a lessee

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives allowed by the lessor are recognised in the profit or loss as an integral part of the total lease payments made.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The results of the operating segments are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, costs incurred for purchase of investment properties or redevelopment of existing investment properties and costs incurred towards development of properties which are either intended to be sold or transferred to investment properties.

3.2 Changes in accounting policies and disclosures

Revaluation of land under property, plant and equipment

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of land under property, plant and equipment after initial recognition. The Group had previously measured land under property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated impairment losses.

In the last quarter of 2018, the Group elected to change the method of accounting for land classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its consolidated financial statements. In addition, available valuation techniques provide reliable estimates of land's fair value. The Group applied the revaluation model prospectively.

After initial recognition, land is measured at fair value at the date of the revaluation less any subsequent accumulated impairment losses.

As a result of the change in the accounting policy, a revaluation adjustment of AED 390 million was recorded in OCI.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2018, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017. However, the adoption of IFRS 9 did not have any impact on the Group's consolidated financial statements, and accordingly, the comparative information was not restated.

Classification – financial assets

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

Trade receivables and *other current financial assets* classified as *Loans and receivables* as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as *Debt instruments at amortised cost*.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, management performed an impairment loss assessment on the Group's Trade and other receivables as at 1 January and 31 December 2017. However, the adoption of IFRS 9 did not result in any additional impairment losses to be recognised on the Group's Trade and other receivables prior to the application date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the full retrospective method of adoption. However, the effect of the adoption of IFRS 15 on the Group's consolidated financial statements was limited to reclassification of certain items in the consolidated statement of financial position with no effect on the previously reported profit and net assets of the Group.

In the consolidated statement of financial position, 'Contract work in progress' and 'Deposits and advances' have been categorised as 'Contract assets' and 'Contract liabilities', respectively, under IFRS 15, with no changes in the previously reported amounts, except for an amount of AED 5.6 million that was reclassified from Contract liabilities to Trade and other payables representing deposits received from customers without a corresponding performance obligation.

The change did not have any impact on OCI or the consolidated statement of cash flows for the year ended 31 December 2017.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments did not have any impact on the Group's consolidated financial statements given that all transfers from/to investment properties are based on evidence of the change in use.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments are not relevant to the Group.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16, if any, recognised as an adjustment to the opening balance of retained earnings.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Transition to IFRS 16 (continued)

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group is in the process of finalizing the analysis of the impact of IFRS 16 at the date of issuance of these consolidated financial statements, and is planning to make use of one or more of the practical expedients allowed by the standard. In summary, the application of IFRS 16 is not expected to have a material impact on the Group's consolidated financial statements given that the Group's significant lease contracts are short-term in nature and the Group conducts its business operations primarily through owned properties.

Other amendments and improvements

The following amendments and improvements are not expected to have any significant impact on the Group's consolidated financial statements when they become effective:

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments: *effective for annual periods beginning on or after 1 January 2019*
- Prepayment Features with Negative Compensation - Amendments to IFRS 9: effective for annual periods beginning on or after 1 January 2019
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28: effective for annual periods beginning on or after 1 January 2019
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19: effective for annual periods beginning on or after 1 January 2019
- AIP IFRS 3 Business Combinations - Previously held Interests in a joint operation: effective for annual periods beginning on or after 1 January 2019
- AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation: effective for annual periods beginning on or after 1 January 2019
- AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity: effective for annual periods beginning on or after 1 January 2019
- AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation: effective for annual periods beginning on or after 1 January 2019
- The Conceptual Framework for Financial Reporting: effective for annual periods beginning on or after 1 January 2020
- IFRS 17 Insurance Contracts: effective for annual periods beginning on or after 1 January 2021, with early application permitted
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

Overview

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

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Furthermore, quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the products offered.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored. At 31 December 2018 and 2017, the Group had receivables from a large number of customers.

The Group is exposed to credit risk on receivables from real estate property sales as the Group allows its customers to make payments in instalments over a period of 2 to 5 years. In order to mitigate the credit risk, the Group receives advances from its customers at the time of the sale and post-dated cheques for the remaining balance at the time of hand over. In addition, the Group does not transfer the legal title of the property to the customer until the full amount has been paid. Furthermore, the risk of financial loss to the Group on account of customer default is low as the property title acts as collateral.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk (continued)

Trade receivables and contract assets (contract assets)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 29. The Group does not hold collateral as security.

The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as the balances are due from a large number of customers operating in various industries.

Exposure to credit risk from trade receivables is discussed in details in Note 29.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group considers the credit risk on bank balances to be minimal given that the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group invests only on quoted equity and debt securities with low credit risk.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 and 2017 is the carrying amounts as illustrated in Note 29.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk relates to trade and other payables (including non-current payables), security deposits, amounts due to related parties, short-term bank borrowings, and long-term bank loans. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The maturity profile of the Group's financial liabilities is disclosed in Note 29.

Market risk

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

Market risk (continued)

Equity risk

The Group buys and sells certain marketable securities. The Group's management monitor the mix of securities in the investment portfolio based on market expectations and these dealings in marketable securities are approved by the Board of Directors.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

Interest rate sensitivity analysis is disclosed in Note 29.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities in relation to debt obligations denominated in Egyptian Pounds.

Foreign currency risk sensitivity analysis is disclosed in Note 29.

Capital management

The Board of Director's policy is to maintain a strong capital base so as to maintain creditors, customers and market confidence and to sustain future development of the business. The Board of Directors' would monitor the return on capital and level of dividends based upon profits earned by the Group during the year.

There were no changes in the Group's approach to capital management during the year. Except for complying with certain provisions of the UAE Federal Law No. (2) of 2015, the Company is not subject to any externally imposed capital requirements.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS

5.1 Disaggregated revenue and cost information

Segments	For the year ended 31 December 2018			
	Real estate	Contracting	Goods and services	Total
	AED'000	AED'000	AED'000	AED'000
<i>Type of goods or service</i>				
Property rentals	63,975	-	-	63,975
Sale of properties	66,878	-	-	66,878
Mechanical, electricidal and plumbing	-	25,009	-	25,009
Facility management and maintenance services	-	-	226,610	226,610
Interior architecture	-	50,399	-	50,399
Motor racing services	-	-	36,468	36,468
Sale of goods	-	-	31,649	31,649
Total revenue from contracts with customers	130,853	75,408	294,727	500,988
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	66,878	-	31,649	98,527
Services transferred over time	63,975	25,009	263,078	352,062
Goods and services (bundled) transferred over time	-	50,399	-	50,399
Total revenue from contracts with customers	130,853	75,408	294,727	500,988
Direct costs	(96,654)	(58,885)	(226,524)	(382,063)
Gross profit	34,199	16,523	68,203	118,925
Segments	For the year ended 31 December 2017			
	Real estate	Contracting	Goods and services	Total
	AED'000	AED'000	AED'000	AED'000
<i>Type of goods or service</i>				
Property rentals	72,922	-	-	72,922
Sale of properties	43,540	-	-	43,540
Mechanical, electricidal and plumbing	-	45,896	-	45,896
Facility management and maintenance services	-	-	205,066	205,066
Interior architecture	-	60,038	-	60,038
Motor racing services	-	-	35,390	35,390
Sale of goods	-	-	21,755	21,755
Total revenue from contracts with customers	116,462	105,934	262,211	484,607
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	43,540	-	21,755	65,295
Services transferred over time	72,922	45,896	240,456	359,274
Goods and services (bundled) transferred over time	-	60,038	-	60,038
Total revenue from contracts with customers	116,462	105,934	262,211	484,607
Direct costs	(81,667)	(427,686)	(206,865)	(716,218)
Gross profit	34,795	(321,752)	55,346	(231,611)

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.2 Direct costs information

Direct costs include the following:

	2018 AED'000	2017 AED'000
Staff costs	142,075	144,546
Development properties recognised as cost	53,044	31,216
Inventories recognised as cost	13,496	9,608
Depreciation (note 8)	4,533	6,069
Provision against the contracting business	-	268,330

Provision against the contracting business

During the year ended 31 December 2017, the Company's Board of Directors resolved to down size the operations of Thermo LLC, a subsidiary of the Company, to a closure level. The Board of Directors, with the assistance of independent lawyers, reviewed and assessed the risk associated with the historical claims arising against the subsidiary. Accordingly, in 2017, the Group recorded provision of AED 119 million against contract assets and certain trade and retention receivables. In addition, based on management's assessment of future claims and the fact that performance bond guarantees granted by the subsidiary against projects are not expected to be retrieved, a provision of AED 149 million was recorded to account for the risk and obligation that may arise against future claims towards such claims and guarantees.

5.3 Contract balances

	2018 AED'000	2017 AED'000
Trade and retention receivables (note 10 & 14)	298,543	720,341
Contract assets (note 13)	197,835	207,671
Contract liabilities (note 18)	96,138	139,492

Trade receivables

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days from the date of sale. In 2018, AED 13.3 million was recognised as provision for expected credit losses on trade receivables (2017: AED 0.6 million).

Retentions receivable

Retentions receivable are non-interest bearing and represent payments withheld by customers over a certain period and according to contractual agreements between the Group and the customers. These retentions are calculated based on a certain percentage of the total work billed. Retentions receivable serve as guarantees to customers for the proper execution of the contract during and after completion of the projects. In 2018 no provision for expected credit losses on retentions receivable was recognised (2017: Nil).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.3 Contract balances (continued)

Contract assets

Contract assets are initially recognised for revenue earned from contracting activities as receipt of consideration is conditional on acceptance of the customer. Upon acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. In 2018, no provision for expected credit losses on contract assets was recognised (2017: Nil).

Contract liabilities

Contract liabilities represent advances received from customers to deliver projects, goods, and services, advances for rental of properties and excess billings (note 18).

5.4 Performance obligations

Information about the Group's performance obligations are summarised below:

Sales of goods

The performance obligation is satisfied upon collection/delivery of the goods and payment is generally due within 30 to 90 days from the date of sale.

The Group receives short-term advances against the satisfaction of the related performance obligations, which do not contain any financing component, and provides assurance type warranty, which is not considered a separate performance obligation.

Contracting

The performance obligation for mechanical, electrical and plumbing works and interior decorations are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group. Payment is generally due upon submission of payment certificates and acceptance of the same by customers. The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2018	2017
	AED'000	AED'000
Within one year	<u>16,194</u>	<u>25,213</u>

Sale of properties

Based on the terms of the current sales contracts in issue, the performance obligation for the sale of properties is satisfied at a point in time, when the Company completes the physical handing over of the sold property. Payment is generally due upon handing over the property and in some cases is deferred in the form of instalments.

Rental income from properties

The performance obligation for the rental of properties is satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group. The Group usually receives payment against rental contract in advance.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.4 Performance obligations (continued)

Services

The performance obligations for facility management, maintenance and motor racing services are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group.

6 ADMINISTRATIVE AND GENERAL EXPENSES

	2018 AED'000	2017 AED'000
<i>These include the following:</i>		
Staff costs	83,109	60,838
Professional fees and licenses	61,775	36,031
Depreciation (note 8)	8,395	10,878
Marketing and advertising expenses	11,508	12,326
Expected credit loss expense on receivables (note 29)	13,264	599
Office expenses	<u>11,201</u>	<u>6,628</u>

7 OTHER INCOME

	2018 AED'000	2017 AED'000
Reversals of liabilities (refer note below)	90,138	124,000
Gain on disposal of property, plant and equipment (note 8)	-	589
Miscellaneous income	<u>29,562</u>	<u>17,968</u>
	<u>119,700</u>	<u>142,557</u>

The reversals of liabilities are mainly related to payables and accruals in relation to completed projects, for which management assessed that no settlement will be required against.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

8 PROPERTY, PLANT AND EQUIPMENT

	Land AED'000	Buildings and leasehold improvements AED'000	Plant and machinery AED'000	Furniture, fixtures and office equipments AED'000	Motor vehicles AED'000	Equipment and tools AED'000	Capital work- in-progress AED'000	Total AED'000
Cost and revaluation:								-
At 1 January 2017	39,288	143,260	32,582	91,662	57,640	13,208	823	378,463
Additions	-	2,282	4,087	2,926	3,232	186	6,611	19,324
Disposal	-	(9,223)	-	(15,834)	(3,100)	(52)	-	(28,209)
At 31 December 2017	39,288	136,319	36,669	78,754	57,772	13,342	7,434	369,578
Additions	-	54	362	4,246	2,463	650	8,215	15,990
Revaluation (note 8.2)	390,011	-	-	-	-	-	-	390,011
Disposals	-	-	(1,543)	(4,608)	(377)	(1,061)	-	(7,589)
Transfers	-	(1,204)	-	3,185	-	-	(3,185)	(1,204)
At 31 December 2018	429,299	135,169	35,488	81,577	59,858	12,931	12,464	766,786
Depreciation:								
At 1 January 2017	-	56,351	29,962	86,162	48,608	11,602	-	232,685
Charge for the year (note 8.3)	-	5,611	5,169	3,379	1,835	953	-	16,947
Disposals	-	(8,939)	-	(11,070)	(3,030)	(50)	-	(23,089)
At 31 December 2017	-	53,023	35,131	78,471	47,413	12,505	-	226,543
Charge for the year	-	5,905	795	3,337	2,221	670	-	12,928
Disposals	-	-	(1,544)	(2,807)	(376)	(971)	-	(5,698)
Transfers	-	(311)	-	-	-	-	-	(311)
At 31 December 2018	-	58,617	34,382	79,001	49,258	12,204	-	233,462
Net carrying amount:								
At 31 December 2018	429,299	76,552	1,106	2,576	10,600	727	12,464	533,324
At 31 December 2017	39,288	83,296	1,538	283	10,359	837	7,434	143,035

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

8.1 Capital work-in-progress

Capital work in progress mainly represents payments towards office renovation and equipment.

8.2 Revaluation of land

The Group changed the accounting policy with respect to the measurement of land in on a prospective basis in 2018. Therefore, the fair value of the land was not measured at 1 January and 31 December 2017.

If land was continued to be measured using the cost model, the carrying amount would be AED 39.3 million.

The fair value of the land was determined using a valuation methodology based on a discounted cash flow model, as there is a lack of comparable market data due to the nature of the property. The valuation at 31 December 2018 was carried by independent valuers with specific valuation experience for similar properties based on assumptions prepared by management and validated by the external valurer. Significant unobservable inputs have been used in estimating the fair value of the property including cash flow projections, future capital expenditures, discount rate and growth rate. A net gain from the revaluation of the land of AED 390 million in 2018 was recognised in OCI, representing a level 3 revaluation gain.

Significant increases (decreases) in the significant unobservable inputs would result in a significantly higher (lower) fair value.

8.3 Depreciation

Depreciation is allocated in profit or loss as follows:

	2018 AED'000	2017 AED'000
Depreciation recognized as cost	4,533	6,069
Depreciation recognised as general and administrative expenses	8,395	10,878
	<u>12,928</u>	<u>16,947</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 INVESTMENT PROPERTIES

The Group's investment properties consist of commercial and residential properties as well as land in Dubai Motor City, which are carried at fair value based on level 3 fair value hierarchy. The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The movement in investment properties during the year was as follows:

	2018 AED'000	2017 AED'000
At 1 January	3,718,645	5,595,437
Additions during the year	32,500	198,906
Transfer to development properties (note 12)	(46,637)	-
Transfer from development properties (note 12)	7,170	-
Transfer from property, plant and equipment (note 8)	893	-
Transfer from receivables (note 9.1)	412,137	-
Gain/(loss) on fair valuation (note 9.5)	86,404	(2,075,698)
At 31 December	<u>4,211,112</u>	<u>3,718,645</u>

9.1 Transfer from receivables

During the year, amounts of AED 233.7 million and AED 178.5 million were transferred from current and non-current receivables, respectively, pertaining to receivables from the sale of a property, whereby the buyer defaulted on the payments and the Company exercised its contractual legal right to claim back the property. Accordingly, these amounts were reclassified to investment properties based on management's decision to hold the property for rental and/or capital appreciation purposes, which resulted in a change in fair value of AED 112.9 million recorded in profit or loss during the year ended 31 December 2018.

9.2 Transfer from development properties

The Board of Directors of the Company has reassessed the use of certain properties held for sale under development properties. Accordingly, properties amounting to AED 7.2 million have been transferred from development properties to investment properties. As at the reporting date, these properties have been stated at fair value in accordance with the accounting policy adopted by the Group for the measurement of investment properties.

9.3 Transfer to development properties

During the year, the Group transferred properties amounting to AED 46.6 million from investment properties to development properties upon change in use (2017:nil). These properties were sold during the year.

9.4 Transfer from property, plant and equipment

During the year, the Group transferred properties amounting to AED 0.9 million from property, plant and equipment to investment properties upon change in use (2017:nil).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 INVESTMENT PROPERTIES (CONTINUED)

9.5 Valuation of investment properties

As at 31 December 2018 and 2017, the fair values of the properties are based on valuations performed by Valustrat Consulting FZCO, an accredited independent registered valuer. A valuation model in accordance with that recommended by the International Valuation Standards Council has been applied. The independent valuer provides the fair value of the Group's investment property portfolio every six months.

The independent registered valuer carried out the valuation based on an open market valuation in accordance with RICS Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, adopting the IFRS basis of fair value and using established valuation techniques. The independent valuer reviewed the updated master community development plan for the MotorCity project in forming its view of the fair value of the portfolio as at 31 December 2018 and 2017.

The fair values have been determined by taking into consideration the discounted cash flows where the Company has ongoing lease arrangements. In this regard, the Group's current lease arrangements, which are entered into on an arm's length basis, and which are comparable to those for similar properties in the same location, have been taken into account.

In cases where the Company does not have any on-going lease arrangements, fair values have been determined, where relevant, having regard to recent market transactions for similar properties as well as taking into account of expected changes in the supply of properties in and around the same location as the Group's investment properties. These values are adjusted for differences in key attributes such as property size.

For property under construction, the valuation was determined using residual value approach incorporating a combination of both the income and cost approaches. The market value estimate of these properties is on the assumption that the properties are complete as at the date of valuation, and from which appropriate deductions are made for the costs to complete the project in order to estimate the value of the property in its present condition.

Considering the expected significant increase in the new supply of plots of land in and around the land bank of the Company together with the already existing undeveloped plots of land in existing communities, the independent valuer and management believe this is resulting in increased competition and downward pricing pressures particularly for plots of land. Furthermore, increased property developments in and around the land bank of the Company that are being completed for delivery in the end user property market, have resulted into more competition and reduced prices for developed properties as well as land prices. As a result, development margin risks are believed to be increasing when purchasing land as compared to 2017. These factors have resulted in a lower fair value of the Group's land bank. As at 31 December 2018, the independent valuer has determined AED 4,211 million (2017: 3,719 million) as the fair value of the Group's investment properties.

Accordingly, based on the above valuation, fair value gains of AED 86.4 million (2017: valuation loss of AED 2,076 million) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018. The fair value loss of AED 2,076 million in 2017 includes AED 690 million of valuation loss on gross floor area (see details in note 9.6) and AED 1,380 million as change in fair value of investment properties.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 INVESTMENT PROPERTIES (CONTINUED)

9.5 Valuation of investment properties (continued)

The Company's Board of Directors has reviewed the assumptions and methodology used by the independent registered valuer, and in its opinion, these assumptions and valuation methodology are appropriate and prudent as at the reporting date.

Any significant movement in the assumptions used for the fair valuation of investment properties would result in significantly lower/higher fair values of those assets.

9.6 Valuation loss on gross floor area

As at 1 January 2017, the Company had ownership of 14.33 million square feet of gross floor area for development within the MotorCity project. With an expected significant increase in new supply of plots of land in and around the land bank of the Company, during the year ended 31 December 2017, the Company had appointed an independent third party consultant to review and prepare an updated master community development plan for the MotorCity project. Considering the infrastructure and the master community development plan as approved by Dubai Municipality, the independent third party consultant had advised that the Company will likely only be able to utilise 12 million square feet of gross floor area distributed among residential, retail and commercial on the existing unsold and undeveloped plots of land within the MotorCity project. The independent third party consultant had recommended that in case the Company would like to utilise the extra 2.33 million square feet of gross floor area, the Company would need to consider additional commercial costs as well as the practicality of obtaining the required regulatory approvals in the UAE for developing this extra gross floor area.

As at 31 December 2018, the independent third party consultant and management continue to believe that the Company will likely be able to utilise only 12 million square feet of gross floor area distributed among residential, retail and commercial on the existing unsold and undeveloped plots of land within the MotorCity project.

The Company's Board of Directors continues to review the application of highest and best use of its available gross floor area to be applied on the Company's plots of land in the future without forfeiture. The Company's Board of Directors is of the opinion, taking into account the market factors noted above, that the updated master community development plan for the MotorCity project is most likely to yield the highest value and this plan has been approved by the Board of Directors for submission to the regulatory authorities for review and approval. Accordingly, the Company's Board of Directors has confirmed that the 2.33 million of extra gross floor area should have a nil value as at 31 December 2018 and 2017 whereby the corresponding fair valuation loss amounting to AED 690 million has been recorded in the consolidated statement of profit or loss during the year ended 31 December 2017.

The Company's intention is to develop its land bank, and while doing so, it may require and utilise this extra gross floor area depending on the commercial aspect and practicality of utilizing this extra gross floor area. Furthermore, as at 31 December 2018, the Company is still preparing the documentation for submitting the updated master community development plan for the MotorCity project to Regulatory Authorities for approval. Should these estimates or assumptions change, the actual results may defer.

9.7 Capitalised borrowing costs

The construction of a residential property development, which was completed during the year, was financed by a banking facility and the amount of borrowing costs capitalised during the year was AED 5.8 million up to the date of completion of construction (2017: AED 6.4 million).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 INVESTMENT PROPERTIES (CONTINUED)

9.8 Description of valuation techniques used and key inputs to valuation of investment properties

The valuations were determined mainly using the income valuation approach or the market (sale comparable) valuation approach based on significant unobservable inputs such that the fair value measurement was classified as level 3.

Income valuation approach

In determining the fair value of properties using the income valuation approach, the valuer took into account property specific information such as the current contracted tenancies agreement and forecasted operating expenses. The valuer applied assumptions for capitalization yield rates and estimated market rent, which are influenced by specific characteristics, such as property location, income return and occupancy of each property in the portfolio, to arrive at the final valuation. The significant unobservable inputs include: estimated rental value per square foot., forecasted operating expenses, long-term vacancy rate and discount rate.

For properties that are under development, the valuer used a residual approach, which takes into account the expectations of perceived market participants of the Gross Development Value for an asset assuming development is complete, less Gross Development Cost (which is the expected cost to complete development) in order to arrive at the property value in its current incomplete state. In this type of approach, additional unobservable inputs are used including comparable rent rates, expected future use of the asset, and expected time and cost to complete development.

Market valuation approach

In determining the fair value of properties using the market valuation approach, the valuer took into consideration the price per square foot for recent market transactions for comparable properties in and around the same location of the respective property and/or having the same quality and characteristics of the valued property. The significant unobservable input for this type of valuation mainly represents the price per square foot applied on the property area in determining the value of the respective property.

Other information

Significant increases (decreases) in the significant unobservable inputs would result in a significantly higher (lower) fair values.

The valuation basis and assumptions used for the valuation of investment properties are consistent with those adopted in 2017.

There were no changes to the valuation techniques during the year.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 NON-CURRENT RECEIVABLES

	2018 AED'000	2017 AED'000
Retention receivables	24,679	35,497
Property sales receivables	35,500	263,608
Other receivables	-	154
	<u>60,179</u>	<u>299,259</u>

The Group's exposure to credit risk and impairment losses related to financial assets are disclosed in note 29.

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss comprise the following:

	2018 AED'000	2017 AED'000
Quoted funds	286,230	-
Quoted equities	10,566	91,902
Unquoted equity	1,348	1,348
	<u>298,144</u>	<u>93,250</u>

The movement in investments at fair value through profit or loss during the year was as follows:

	2018 AED'000	2017 AED'000
At 1 January	93,250	173,399
Additions	940,233	111,878
Disposals	(359,422)	(190,408)
Transfer to investment in associate (note 24)	(374,130)	-
Loss on revaluation	(1,787)	(1,619)
At 31 December	<u>298,144</u>	<u>93,250</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The following table shows reconciliation from the opening balances to the closing balances for level 1 of fair values.

Level 1:

	2018 AED'000	2017 AED'000
At 1 January	91,902	170,908
Additions	940,233	111,878
Disposals	(359,422)	(190,408)
Transfer to investment in associate	(374,130)	-
Total (loss)/gain - net:		
-in the consolidated statement of profit or loss	(1,787)	(476)
At 31 December	296,796	91,902

Investments in quoted funds

During the year, the Group invested in funds, having a fair value of AED 286 million as at the reporting date, which resulted in a net loss on change in fair value of AED 23.2 million during the year (2017: AED 1.2 million).

The Group also has an investment in a real estate fund valued at AED 1.35 million at year-end (2017: AED 2.5 million).

Investments in quoted equities

Palm Hills Development PJSC

During the six month period ended 30 June 2018, in line with its investment strategy, the Group made additional purchases of shares in Palm Hills Development PJSC, a company based in Egypt and listed on the Egyptian Stock Market and London Stock Exchange, increasing its ownership of shares as at the reporting date to 406.2 million shares (2017: 112.8 million shares), representing a 17.59% shareholding in the company (2017: 4.9% shareholding). The fair value of this investment as at 30 June 2018 was AED 374.9 million which resulted in a gain on change in fair value of AED 28.9 million during that period (31 December 2017: nil).

During the third quarter 2018, the investment was reclassified as an investment in associate upon obtaining the ability to exercise the necessary voting power on the investee's Board (Note 24). Accordingly, the investment with fair value of AED 374.1 million at 30 June 2018 (2017: AED 90.7 million) was transferred to investment in associate representing the cost of acquisition of the associate.

Other equity instruments

During the year, the Group invested in other listed equity investments, having a fair value of AED 10.6 million at the reporting date.

Others

The Group has no investments in Abraaj Group, any of its projects, funds or any business relationship with or exposure to it.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

12 INVENTORIES

Trading and project related inventories

	2018 AED'000	2017 AED'000
Project related material (net of provision for slow moving materials)	1,790	235
Stock-in-trade	3,879	5,143
Spares and consumables	902	981
	6,571	6,359

Development properties

	2018 AED'000	2017 AED'000
At 1 January	8,868	40,084
Additions during the year	2,792	-
Transfer from investment properties (refer note 9)	46,637	-
Cost of properties sold (note 5.2)	(53,044)	(31,216)
Reversal of provision	9,421	-
Transfer to investment properties (refer note 9)	(7,170)	-
At 31 December	7,504	8,868

Development properties at 31 December 2018 are stated net of provision of AED 1.6 million (2017: AED 11 million). During the year an amount of AED 9.4 million was reversed from the provision balance in profit or loss.

13 CONTRACT ASSETS

	2018 AED'000	2017 AED'000
Costs plus attributable profit less foreseeable losses	370,176	386,459
Less: progress billings	(177,567)	(183,439)
	192,609	203,020
<i>Disclosed in the consolidated statement of financial position:</i>		
Contract work-in-progress (note 5.3)	197,835	207,671
Excess billings over project WIP (note 18)	(5,226)	(4,651)
	192,609	203,020

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

14 TRADE AND OTHER RECEIVABLES

	2018 AED'000	2017 AED'000
Financial instruments		
Trade receivables	1,969,528	1,947,953
Retention receivables	54,179	58,249
Property sales receivables	20,032	207,244
	<u>2,043,739</u>	<u>2,213,446</u>
Less: provision for allowance for expected credit losses	(1,805,375)	(1,792,210)
	<u>238,364</u>	<u>421,236</u>
Other receivables	47,048	24,025
Total (A)	<u>285,412</u>	<u>445,261</u>
Non-financial instruments		
Advances to contractors	28,429	11,275
Prepayments and advances	25,292	27,152
Total (B)	<u>53,721</u>	<u>38,427</u>
Total (A+B)	<u>339,133</u>	<u>483,688</u>

The Group's exposure to credit risk and impairment losses related to receivables are disclosed in note 29.

15 TRANSACTIONS WITH RELATED PARTIES

The Group, in the normal course of business, enters into transactions with other enterprises, and individuals which fall within the definition of a related party contained in International Accounting Standard No. 24. Such transactions are on terms and conditions approved by the Group's management.

Balances with related parties in the consolidated statement of financial position represent balances due from equity accounted investees.

The Group's exposure to credit risk and liquidity risk related to related party balances are disclosed in note 29.

Compensation to directors and other members of key management are as follows:

	2018 AED'000	2017 AED'000
Salaries and other short term employee benefits	18,778	15,882
Provision towards employees terminal benefits	<u>716</u>	<u>728</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

16 CASH IN HAND AND AT BANKS

	2018 AED'000	2017 AED'000
Cash in hand	658	556
Cash at banks		
– in deposit accounts held under lien	42,646	11,063
– in current accounts	37,053	90,460
– in other deposit accounts	17,141	27,578
	<u>97,498</u>	<u>129,657</u>

(a) Cash and cash equivalents

	2018 AED'000	2017 AED'000
Cash and cash equivalents comprise:		
Cash in hand and at banks (excluding deposits under lien)	54,852	118,594
Bank overdrafts (refer note 19)	(231,426)	(51,106)
	<u>(176,574)</u>	<u>67,488</u>

(b) Cash at banks in deposit accounts

Cash at banks in deposit accounts carry interest at commercial rates.

The Group's exposure to interest rate risk and sensitivity analysis of financial assets are disclosed in note 29.

17 TRADE AND OTHER PAYABLES

	2018 AED'000	2017 AED'000
Financial instruments		
Trade payables	360,533	383,363
Retention payables	61,646	61,782
Other payables and accruals (refer (a) below)	832,783	773,711
Total	<u>1,254,962</u>	<u>1,218,856</u>

Other payable and accruals include:

	2018 AED'000	2017 AED'000
Provisions and accruals against contracting business	536,997	572,899
Provision for staff related payables	29,857	50,399
Provisions for payment to contractors cost	10,071	10,071

The group's exposure to liquidity risk related to trade and other payables is disclosed in note 29.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

18 CONTRACT LIABILITIES

	2018 AED'000	2017 AED'000
Advances from customers - current	82,960	100,578
Advances from customers - non-current	7,952	34,263
Excess billings over project WIP	5,226	4,651
	<u>96,138</u>	<u>139,492</u>

Non-current contract liabilities represent advances received from customers against the sale of properties in accordance with the payment schedules as stated in the respective sale and purchase agreements, whereby the revenue would be recognised upon the handover of the properties.

19 BANK OVERDRAFTS

	2018 AED'000	2017 AED'000
Bank overdrafts	<u>231,426</u>	<u>51,106</u>

Significant terms and conditions

Bank overdrafts have been obtained from local and foreign banks to finance the working capital requirements of the Group, which carry interest at commercial rates.

Securities

Bank overdrafts are secured by:

- Promissory notes;
- Joint and several guarantees of the Company;
- A letter of undertaking by the Company not to reduce its shareholding in Thermo LLC ("a subsidiary") as long as the banking facilities are outstanding; and
- Assignment of certain contract and retention receivables.

For more information about the Group's exposure to liquidity risk and interest rate risk, refer note 29.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

20 BANK LOANS

This note provides information about the contractual terms of the Group's interest bearing bank loans, which are measured at amortised cost. For more information about the Group's exposure to liquidity risk and interest rate risk, refer note 29.

	2018 AED'000	2017 AED'000
At 31 December	1,544,913	1,510,676
Less: Current portion	(981,995)	(591,565)
Non-current portion	<u>562,918</u>	<u>919,111</u>

The bank loans carry interest at commercial rates. Further details related to bank loans are shown below.

The movement in bank loans during the year was as follows:

	2018 AED'000	2017 AED'000
At 1 January	1,510,676	1,364,098
Availed during the year	485,110	241,892
Repayments during the year	(450,873)	(95,314)
At 31 December	<u>1,544,913</u>	<u>1,510,676</u>

Bank loans mainly include the following facilities:

- (i) In 2014, the Company obtained an Islamic financing facility in the amount of AED 360 million from a local Islamic bank to settle another bank facility of the same amount. This facility is repayable in 25 equal quarterly instalments, which commenced in April 2016, and a final instalment of AED 140 million due in July 2021.

During 2016, the Group has made an early settlement amounting to AED 40 million against this bank loan. During 2018, the loan was fully settled through a new bank facility (refer vii below) At 31 December 2017, the loan amount outstanding was AED 243.9 million.

- (ii) In 2012, the Group entered into an agreement with a local bank, to obtain a term loan of AED 1,078.2 million which was utilised by the Group to settle outstanding short-term bank borrowings that existed at that date. This term loan is repayable in 6 equal annual instalments of AED 100 million commencing on 30 June 2016 and a final payment of AED 478.2 million payable on 30 June 2022, in addition to semi-annual interest payments.

During 2016, the Group made a settlement of AED 100 million against the first instalment and an early settlement of AED 500 million against the remaining annual instalments. At 31 December 2018, the loan amount outstanding is AED 478.2 million (2017: AED 478.2 million). At 31 December 2018, the loan has been classified as a current liability due to breach in contractual payment.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

20 BANK LOANS (CONTINUED)

- (iii) In 2016, the Company obtained a long-term bank loan from a local bank of AED 19.5 million. The loan is repayable in twelve quarterly instalments of AED 1.6 million that commenced in May 2016 plus interest. At 31 December 2018, the loan amount outstanding is AED 3.2 million (*2017: AED 8.1 million*).
- (iv) During 2016, the Group entered into agreement with a local bank to obtain a long-term bank loan amounting to AED 550 million to partially settle another bank loan (refer ii above). The loan is repayable in 36 quarterly equal instalments that commenced in September 2016 and carries commercial interest rate. At 31 December 2018, the loan amount outstanding is AED 412.5 million (*2017: AED 458.3 million*).

As at 31 December 2017, the Company had not complied with one of the bank covenants, and accordingly, the loan was classified as current liability in the consolidated statement of financial position. At 31 December 2018, the loan continues to be classified as a current liability due to breach in contractual payment.

- (v) During 2016, the Company entered into an agreement with two local banks and obtained a long-term bank loan with a limit of AED 290 million for the construction of “Oia”, a residential building in MotorCity. The loan is repayable in 12 quarterly equal instalments commencing in September 2019. At 31 December 2018, the withdrawn amount of the loan is AED 216 million (*2017: AED 196 million*).
- (vi) During the previous year, the Company entered into an agreement with a bank to obtain a short-term loan amounting to AED 125 million, which was settled in January 2018.
- (vii) During the year, the Group entered into an agreement with a local bank to obtain a long-term loan amounting to AED 350 million, which was utilised to early settle another bank loan (refer i above). The new facility is repayable in 39 quarterly instalments on a reducing balance basis that commenced in September 2018 and a final instalment of AED 113.8 million due in March 2028. The loan has a balance of AED 336 million at year-end.
- (viii) During the current year, the Group entered into an agreement with a local bank to obtain a long-term loan amounting to AED 100 million. The loan is repayable in 24 quarterly equal instalments that commenced in April 2018. The loan has a balance of AED 87.5 million at year-end.

Securities

The above-mentioned bank loans are secured by one or more of the following:

- a. Registered mortgage of lands and properties with a fair value of AED 2,411 million at 31 December 2018 (*2017: AED 2,364 million*);
- b. Assignment of insurance policies of the mortgaged properties;
- c. Assignment of lease proceeds of certain rental units; and
- d. Corporate guarantees of the Company and certain subsidiaries;
- e. Assignment of receivables; and
- f. Assignment of escrow account of one of the projects

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

21 PROVISION FOR STAFF TERMINAL BENEFITS

	2018 AED'000	2017 AED'000
At 1 January	40,464	54,676
Provision made during the year	5,683	12,065
Payments made during the year	(10,700)	(26,277)
At 31 December	<u>35,447</u>	<u>40,464</u>

The provision for staff terminal benefits, disclosed as a non-current liability, is calculated in accordance with the UAE Labour Law.

22 SHARE CAPITAL

	2018 AED'000	2017 AED'000
<i>Issued and fully paid up at 31 December</i>		
4,289,540,134 (2017: 4,289,540,134)		
shares of par value of AED 1 each	<u>4,289,540</u>	<u>4,289,540</u>

At 31 December 2018, the share capital comprised of ordinary equity shares. All issued shares are fully paid. The holders of ordinary equity shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the General Assembly of the Company. All shares rank equally with regard to the Company's residual assets.

At 31 December 2018, the authorised share capital of the Company is 7 billion shares.

At the Annual General Assembly held on 26 April 2017, the shareholders approved issuing 8% bonus shares as dividends for the year ended 31 December 2016.

23 RESERVES

Statutory reserve

According to the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association, 10% of the annual profit of the Group is appropriated to statutory reserve until such reserve equals 50% of the paid-up share capital of the Company. Such allocations may be ceased when the statutory reserve equals half of the paid-up share capital of the Company. During the current year, the Company transferred an amount of AED 6.2 million to the statutory reserve (2017: nil).

General reserve

According to the Articles of Association of the Company, 10% of the annual profit of the Group is appropriated to general reserve. The transfer to general reserve may be suspended at the recommendation of the Board of Directors or when it equals 50% of the paid-up share capital.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

23 RESERVES (CONTINUED)

General reserve (continued)

During the previous year, in accordance with the Articles of Association of the Company, the Board of Directors resolved to apply the general reserve amounting to AED 313.7 million to partially offset the Group's accumulated losses as at 31 December 2017.

Asset revaluation surplus

Changes in the fair value of the Group's land under property, plant and equipment measured at fair value are recognised in OCI and credited to the asset revaluation surplus in equity.

24 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Investment in a joint venture

The Group had a 50% interest in Emirates District Cooling (Emicool) LLC, a joint venture involved in providing cooling services. On 18 January 2018, the Group disposed its 50% interest in Emirates District Cooling (Emicool) LLC to Dubai Investments PJSC for a total consideration of AED 500 million, resulting in a gain on disposal amounting to AED 125 million recognised in profit or loss.

The Group's interest in the joint venture is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017 AED'000
Financial position:	
Non-current assets	1,730,644
Current assets	250,347
Non-current liabilities	(972,880)
Current liabilities	(258,140)
Equity	749,971
Group's share of equity - 50%	374,986
Income	379,391
Expenses	(299,363)
Profit for the year	80,028
Group's share of profit - 50%	40,014

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

Investments in associates

Investment in Palm Hills Development

In line with the Group's investment strategy, the Group through its investment arm made a strategic investment in Palm Hills Development in 2017 and 2018, involved in investment in and development of properties and property related activities in Egypt and listed on the Egyptian Stock Market.

During the year, the Group reassessed its level of influence over Palm Hills Development in light of acceptance from the investee's Board of the Group's the right to appoint two Directors to the Board of Palm Hills Development. The Group has determined that this right to appoint two directors gives it significant influence over Palm Hills Development. The appointment of the members was completed during the fourth quarter of 2018.

Accordingly, the Group reclassified its investment from an investment at fair value through profit or loss, to an investment in associate to be accounted for under the equity method in accordance with IAS 28 effective 1 July 2018.

Upon reclassification, the previously reported fair value of the investment at 30 June 2018 of AED 374.1 million became the cost of the investment in associate (Note 11) with a shareholding of 17.59%. The difference between the Group's share of the net assets and the fair value of the consideration of AED 128 million at the date of acquisition has been provisionally accounted for as embedded goodwill.

During the fourth quarter 2018, the Group disposed of 22.3 million shares in the associate resulting in a loss of AED 11.1 million recognised as part of the share of profit of equity accounted investees in the consolidated statement of profit or loss. In addition, Palm Hills Development PJSC issued 769.65 million new shares to the public, to which the Group did not subscribe. As a result of those transactions, the Group's shareholding in the associate decreased to 12.47% at 31 December 2018. The Group continues to exercise significant influence over the investee through its board representation as mentioned above.

As a result of the disposal of 22.3 million shares, the amount of the embedded goodwill decrease to AED 121 million at 31 December 2018. The purchase price allocation exercise is not yet complete at the date of the issuance of these consolidated financial statements.

The investment is accounted for using the equity method in the consolidated financial statements from the date when the investment was classified as an investment in associate.

The following table illustrates the summarised financial information of the Group's investment in the associate as at and for the three month period ended 30 September 2018, whereby financial information related to the fourth quarter 2018 were not made available to the Group at the date of the issuance of the consolidated financial statements:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

24 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

Investments in associates (continued)

Investment in Palm Hills Development (continued)

	2018 AED'000
Financial position:	
Non-current assets	3,244,585
Current assets	3,540,997
Non-current liabilities	(1,516,341)
Current liabilities	(3,722,384)
Non-controlling interests	(107,744)
Equity at 30 September	1,439,113
Group's share of equity - 17.59% - at 30 September	253,140
Embedded goodwill at acquisition	128,235
Carrying amount at 30 September	381,375
Disposal of shares during 4th quarter 2018	(20,557)
Carrying amount at 31 December	360,818
Income for the 3 months period ended 30 September 2018	469,268
Expenses for the 3 months period ended 30 September 2018	(420,811)
Less: profit attributable to non-controlling interests	(7,273)
Profit for the period	41,184
Group's share of profit - 17.59%	7,244

Investment in Properties Investment LLC

The Group has 30% equity interest in Properties Investment LLC, involved in property investments. Properties Investment LLC is a private entity that is not listed on any public exchange. The Group's interest in Properties Investment LLC is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in Properties Investment LLC:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

24 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

Investments in associates (continued)

	2018 AED'000	2017 AED'000
Financial position:		
Non-current assets	263,970	232,174
Current assets	746,165	700,811
Non-current liabilities	(350,022)	(369,465)
Current liabilities	(196,984)	(167,618)
Equity	463,129	395,902
Group's share of equity - 30%	138,939	118,771
 Income	114,183	60,236
Expenses	(46,955)	(181,681)
Profit/(loss) for the year	67,228	(121,445)
Group's share of profit/(loss) - 30%	20,168	(36,434)

25 DIRECTORS' FEES

This represents professional fees paid/payable to the Company's directors for serving on any committee, for devoting special time and attention to the business or affairs of the Company and for performing services outside the scope of their ordinary activities.

26 BASIC AND DILUTED EARNINGS PER SHARE

	2018	2017
<i>Profit/(loss) attributable to shareholders (AED'000)</i>	62,329	(2,375,220)
Weighted average number of shares	4,289,540,134	4,289,540,134
Basic and diluted earnings per share (AED)	0.015	(0.554)

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

27 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	2018 AED'000	2017 AED'000
<i>Company and its subsidiaries</i>		
Commitments:		
Capital commitments	<u>12,015</u>	<u>49,571</u>
Contingent liabilities:		
Letters of guarantee	<u>309,960</u>	<u>398,791</u>
<i>An associate and a joint venture</i>		
Contingent liabilities:		
Letters of guarantee	<u>252,500</u>	<u>252,500</u>

During 2016, a Corporate guarantee was issued by the Company in favor of Dubai Islamic Bank PJSC ("DIB") in respect of 50% of the amounts outstanding under the Murabaha facility agreement dated August 2016 between "Properties Investment LLC" and DIB (the "Murabaha Facility Agreement") for the full duration of the Murabaha Facility Agreement.

Contingent liabilities

There are certain claims and contingent liabilities that arise during the normal course of business. The Board of Directors review these on a regular basis as and when such complaints and/or claims are received and each case is treated according to its merit and the terms of the relevant contract.

28 SEGMENT REPORTING

Business segments

The Group's activities include four main business segments, namely, real estate property management, contracting activities, investing activities, and sales of goods and services. The details of segment revenue, segment result, segment assets and segment liabilities are as follows:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

28 SEGMENT REPORTING (CONTINUED)

	Real estate	Contracting	Goods and services	Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2018					
Segment revenue	130,853	75,408	294,727	-	500,988
Loss on financial instruments at FVTPL	-	-	-	(1,787)	(1,787)
Share of profit of associates	-	-	-	16,380	16,380
Gain on disposal of a joint venture	-	-	-	125,014	125,014
Gain on valuation of properties	86,404	-	-	-	86,404
Finance income	3,777	198	127	-	4,102
Other income	94,166	11,919	10,636	2,979	119,700
	<u>315,200</u>	<u>87,525</u>	<u>305,490</u>	<u>142,586</u>	<u>850,801</u>
Direct Cost	(96,654)	(58,885)	(226,524)	-	(382,063)
Administrative and general expenses	(186,619)	(31,030)	(43,491)	(21,111)	(282,251)
Finance expense	(49,775)	(39,058)	(7,082)	(28,243)	(124,158)
Loss for the year	<u>(17,848)</u>	<u>(41,448)</u>	<u>28,393</u>	<u>93,232</u>	<u>62,329</u>
Capital expenditure	48,588	477	2,217	-	51,282
Depreciation	6,621	772	5,535	-	12,928
Segment assets	4,930,119	319,074	221,861	299,523	5,770,577
Investment in associates	-	-	-	499,757	499,757
Total assets	<u>4,930,119</u>	<u>319,074</u>	<u>221,861</u>	<u>799,280</u>	<u>6,270,334</u>
Segment liabilities	<u>1,285,655</u>	<u>1,533,054</u>	<u>184,644</u>	<u>159,823</u>	<u>3,163,176</u>
2017					
Segment revenue	116,462	105,934	262,211	-	484,607
Loss on financial instruments at FVTPL	-	-	-	(1,619)	(1,619)
Share in profit of an associate and joint venture	-	-	-	3,580	3,580
Gain on valuation of properties	(2,075,698)	-	-	-	(2,075,698)
Finance income	10,220	144	341	-	10,705
Other income	136,585	821	5,151	-	142,557
	<u>(1,812,431)</u>	<u>106,899</u>	<u>267,703</u>	<u>1,961</u>	<u>(1,435,868)</u>
Direct Cost	(81,667)	(427,686)	(206,865)	-	(716,218)
Administrative and general expenses	(73,265)	(51,497)	(33,116)	-	(157,878)
Finance expense	(38,535)	(26,106)	(15)	(600)	(65,256)
Profit/(loss) for the year	<u>(2,005,898)</u>	<u>(398,390)</u>	<u>27,707</u>	<u>1,361</u>	<u>(2,375,220)</u>
Capital expenditure	207,401	9,978	851	-	218,230
Depreciation	5,713	1,326	9,908	-	16,947
Segment assets	4,521,229	351,170	157,354	91,902	5,121,655
Investment in an associate and joint venture	-	-	-	493,757	493,757
Total assets	<u>4,521,229</u>	<u>351,170</u>	<u>157,354</u>	<u>585,659</u>	<u>5,615,412</u>
Segment liabilities	<u>1,311,179</u>	<u>1,555,882</u>	<u>93,533</u>	<u>-</u>	<u>2,960,594</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS

Financial assets of the Group include non-current receivables, investments at fair value through profit or loss, trade and other receivables, amounts due from related parties and cash in hand and at bank. Financial liabilities of the Group include trade and other payables, amounts due to related parties, short-term bank borrowings and long-term bank loans. Accounting policies of financial assets and financial liabilities are disclosed under note 3. The table below sets out the Group's classification of each class of financial assets and financial liabilities and their fair values for the current and the comparative years:

		At fair value through profit or loss AED'000	At amortized cost AED'000	Carrying amount AED'000	Fair value AED'000
	Notes				
31 December 2018					
Financial assets					
Non-current receivables	10	-	60,179	60,179	60,179
Investments at fair value through profit or loss	11	298,144	-	298,144	298,144
Trade and other receivables	14	-	285,412	285,412	285,412
Due from related parties	15	-	19,277	19,277	19,277
Cash in hand and at bank	16	-	97,498	97,498	97,498
Total		298,144	462,366	760,510	760,510
Financial liabilities					
Trade and other payables	17	-	1,254,962	1,254,962	1,254,962
Bank overdrafts	19	-	231,426	231,426	231,426
Bank loans	20	-	1,544,913	1,544,913	1,544,913
Total		-	3,031,301	3,031,301	3,031,301

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

	<i>Notes</i>	At fair value through profit or loss AED'000	At amorized cost AED'000	Carrying amount AED'000	Fair value AED'000
31 December 2017					
Financial assets					
Non-current receivables	10	-	299,259	299,259	299,259
Investments at fair value through profit or loss	11	93,250	-	93,250	93,250
Trade and other receivables	14	-	445,261	421,236	421,236
Due from related parties	15	-	31,223	31,223	31,223
Cash in hand and at bank	16	-	129,657	129,657	129,657
Total		<u>93,250</u>	<u>905,400</u>	<u>974,625</u>	<u>974,625</u>
Financial liabilities					
Trade and other payables	17	-	1,218,856	1,218,856	1,218,856
Bank overdrafts	19	-	51,106	51,106	51,106
Bank loans	20	-	1,510,676	1,510,676	1,510,676
Total		<u>-</u>	<u>2,780,638</u>	<u>2,780,638</u>	<u>2,780,638</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Exposure to credit risk

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

	Notes	2018 AED'000	2017 AED'000
Non-current receivables (refer note below)	10	60,179	299,259
Investments at fair value through profit or loss	11	298,144	93,950
Trade and other receivables (refer note below)	14	285,412	445,261
Due from related parties	15	19,277	31,223
Cash at bank	16	96,840	129,101
		759,852	998,794

Trade receivables at 31 December 2017 (including non-current receivables) include an amount of AED 412 million receivable from the sale of properties where the legal ownership of the property is retained by the Group as a collateral. At 31 December 2017, the fair value of the properties held as collateral by the Group approximates to AED 525 million.

Impairment losses

Set out below is the information about the credit risk exposure on the Group's trade and retention receivables using a provision matrix:

		Trade receivables				
			Past due			
	<i>Retentions receivable</i>	<i>Current</i>	<i>1-90 days</i>	<i>91-365 days</i>	<i>>365 days</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
31 December 2018						
Expected credit loss rate	81.76%	3.59%	14.79%	7.75%	98.51%	
Gross amount	78,858	116,784	39,583	121,248	1,747,445	2,103,918
Provision	<u>64,478</u>	<u>4,191</u>	<u>5,856</u>	<u>9,397</u>	<u>1,721,453</u>	<u>1,805,375</u>
31 December 2017						
Expected credit loss rate	85.93%	0.00%	0.74%	2.83%	80.73%	
Gross amount	93,746	80,809	57,655	69,227	2,117,368	2,418,805
Provision	80,554	-	425	1,960	1,709,271	1,792,210

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

The movement in the allowance for expected credit losses in respect of trade and retention receivables during the year is as follows:

	2018	2017
	AED'000	AED'000
At 1 January	1,792,210	1,791,976
Provision for the year (refer note 6)	13,264	599
Amounts written off/provision reversed during the year	(99)	(365)
At 31 December (refer note 14)	<u>1,805,375</u>	<u>1,792,210</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and the impact of netting agreements at the reporting date:

	Notes	Carrying amount AED'000	Contractual cash flows AED'000	On demand AED'000	Less than one year AED'000	1 to 5 years AED'000	More than five year AED'000
Financial liabilities							
31 December 2018							
Non-derivative financial instruments							
Trade and other payables	17	1,254,962	1,254,962	-	1,254,962	-	-
Bank overdrafts	19	231,426	231,426	231,426	-	-	-
Bank loans	20	1,544,913	1,720,897	897,471	117,097	427,841	278,488
Total		3,031,301	3,207,285	1,128,897	1,372,059	427,841	278,488
Financial liabilities							
31 December 2017							
Non-derivative financial instruments							
Trade and other payables	19	1,218,856	1,208,611	-	1,208,611	-	-
Bank overdrafts	21	51,106	51,106	51,106	-	-	-
Bank loans	22	1,510,676	1,822,979	458,333	192,389	1,172,257	-
Total		2,780,638	3,082,696	509,439	1,401,000	1,172,257	

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Group is exposed to interest rate risk on cash at bank, short-term bank borrowings and long-term bank loans (refer notes 16, 19 and 20) which carry variable interest rates.

At the reporting date, the interest rate profile of the Group's variable interest bearing financial liabilities were as follows:

	2018 AED'000	2017 AED'000
Bank overdrafts (refer note 21)	231,426	51,106
Bank loans (refer note 22)	1,544,913	1,510,676
	<u>1,776,339</u>	<u>1,561,782</u>

Cash flow sensitivity analysis for variable rate instruments

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

	Effect on profit or loss and equity	
	100 bp increase AED'000	100 bp decrease AED'000
31 December 2018		
Variable rate instruments	<u>(17,763)</u>	<u>17,763</u>
31 December 2017		
Variable rate instruments	<u>(15,618)</u>	<u>15,618</u>

Fair value hierarchy

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

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

The Group has investments at fair value through profit or loss which are stated at fair value. Also refer to note 13.

	Level 1 AED'000	Level 3 AED'000	Total AED'000
31 December 2018			
Investments at FVTPL	<u>296,796</u>	<u>1,348</u>	<u>298,144</u>
31 December 2017			
Investments at FVTPL	<u>91,902</u>	<u>1,348</u>	<u>93,250</u>

There have been no reclassifications made between the valuation levels during the current year or the previous year.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 SIGNIFICANT ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical accounting estimates and judgements used by management in the preparation of these consolidated financial statements:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Going concern assumption

The Group's management has performed a detailed assessment of the Group's ability to continue as a going concern, which covers a period of twelve months from the reporting date, based on certain identified events and conditions that, individually or collectively, may cast doubt on the Group's ability to continue as going concern.

The Group's management has prepared its business forecast and the cash flow forecast for the twelve months from the reporting date on a conservative basis. The forecasts have been prepared taking into consideration the nature and condition of its business, the degree to which it is affected by external factors and other financial and non-financial data available at the time of preparation of such forecasts.

On the basis of such forecasts, the Group's management is of the opinion that the Group will be able to continue its operations for the next twelve months from the reporting date and that the going concern assumption used in the preparation of these consolidated financial statements is appropriate. The appropriateness of the going concern assumption is reassessed on each reporting date.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of sale of real estate properties

The Group is required to assess each of its contracts with customers for the sale of real estate properties to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the current sale and purchase agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create or enhance an asset that the customer controls as the asset is created or enhanced and the customer receives and consumes the benefits provided by the Group's performance when the asset is transferred to the customer, and accordingly, revenue from such contracts is recognised at a point in time, when the property is handed over to the customer.

The Group also assessed that, in those contracts, the transfer of the legal title of the property is not a criteria in determining the timing of satisfaction of the sale, given that such transfer is usually deferred until full payment from the customer is received, which is considered to be guarantee against receivables.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

Consideration of significant financing component in a contract

The Group's property sales include two alternative payment options for the customer, i.e., payment of the transaction price when the contract is signed and upon handing over of the property, or payment based on a deferred instalments plan. The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in instalments considering the length of time between the customer's payment and the handing over date.

In determining the interest to be applied to the amount of consideration, the Group concluded that the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the property to the amount paid in advance or at the time of handing over) is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception.

Determining the timing of satisfaction of revenue from contracting activities

The Group concluded that revenue from contracting activities is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the services under the contract that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring progress of the contracting activities services because there is a direct relationship between the Group's incurred cost (i.e., actual cost incurred in the satisfaction of the contract) and the transfer of service and goods to the customer. The Group recognises revenue on the basis of the actual cost incurred relative to the total expected cost to complete the project.

Significant influence over an associate

The Group concluded that it has significant influence over Palm Hills Development, an associate, even though it holds less than 20 per cent of the voting rights of the entity. The Group holds 12.47% shareholding in the associate and is represented on the Board of the associate with two members out of eleven i.e. 18%. However, through its participation in the decision making process on the Board of the associate, the Group assessed that significant influence is achieved.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Determination of project progress in contracting activities

The Group uses the input method when measuring the progress of the projects and calculating the related contract revenue. Use of input method requires the Group to estimate the costs incurred to date on contracts as a proportion of the total contract costs to be incurred. The accuracy of this estimate has a material impact on the amount of revenue and related profits recognised. Any revision to profit arising from changes in estimates is accounted for in the period when the changes become known.

Useful lives of its property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Provision for warranty expenses

Provision for warranty expenses is recognised when the contract is completed and handed over to the customer for the period of warranty. The provision is based on historical warranty data and an assessment of all possible outcomes against their associated probabilities.

Impairment losses on property, plant and equipment and intangible assets

The Group reviews its property, plant and equipment and intangible assets to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recognised in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a reduction in the carrying value of property, plant and equipment or intangible assets. Accordingly, provision for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the carrying value of property, plant and equipment or intangible assets.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Impairment losses on properties held for sale in inventory

The Group's management reviews the held for sale properties under inventory to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recognised in the profit or loss, the management assesses the current selling prices of the property units and the anticipated costs for completion of such property units for properties which remain unsold at the reporting date. If the current selling prices are lower than the anticipated total cost at completion, an impairment provision is recognised for the identified loss event or condition to reduce the cost of development properties to its net realisable value.

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

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment on an annual basis. The Group has carried out a review of the residual values and useful lives of property, plant and equipment as at 31 December 2018 and management has not identified any requirement for an adjustment to the residual values and remaining useful lives of the assets for the current or future periods. This assessment is carried out at each reporting date.

Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model is used, whenever there is a lack of comparable market data because of the nature of certain properties. In addition, the Group measures land under property, plant and equipment at revalued amounts, with changes in fair value being recognised in OCI. The land was valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2018 and 2017 for the investment properties and at 31 December 2018 for land under property, plant and equipment.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Notes 8 and 9.

Provision for obsolete inventory

The Group reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recognised in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realisable value for such product. Accordingly, provision for impairment is made where the net realisable value is less than cost based on best estimates by the management. The provision for obsolete inventory is based on the aging and past movement of the inventory.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 29.

Provision against claim and contingent liabilities

The Group's management carries out on a regular basis a detailed assessment of each claim and contingent liabilities that arise during the course of normal business and accordingly makes an assessment of the provision required to settle them. These detailed assessments are based on the past experience of the management in settling these claims and contingent liabilities on commercial terms, weighting of possible outcomes against their associated probabilities. Should the estimate significantly vary, the change will be accounted for as change in estimate and the consolidated financial statements would be significantly impacted in the future.

31 COMPARATIVE FIGURES

Certain comparative figures have been reclassified or regrouped, wherever necessary, to conform to the presentation adopted in these consolidated financial statements. Such reclassifications do not affect the previously reported profit, net assets or equity of the Group.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

32 SOCIAL CONTRIBUTIONS

During the year the Group have contributed in the following social contributions:

Contribution nature	Contribution type	Contribution value
Sponsored ABUD Police People of Determination Festival.	Cash	50,000
Trained, Engaged and awarded 9 UAE nationals volunteers including People of Determination in Cityscape 2018.	Cash	15,600
Sponsorship for Aldhafra Shooting Club.	Cash	323,600
Beach Cleaning was organized in coordination with Dubai Municipality and offering some beverages/water and snacks to participants and Dubai municipality officials.	In-kind	-
Blood Donation is organized on a periodic basis in coordination with DHA and Latifa Hospital and provided some snacks and beverages for the attending staff and employees donating blood on the day.	In-kind	-
Dubai Autodrome holds an event every Wednesday between 6pm & 9pm called TrainDubai where the public are able to safely cycle, run or walk around Dubai Autodrome circuit at no charge.	In-kind	-