

Union Properties  
Public Joint Stock Company  
and its subsidiaries

Consolidated financial statements  
*31 December 2019*

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated financial statements

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31 December 2019

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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 2019. The Directors confirm their responsibility for the preparation of the consolidated financial statements of the Group.

## Financial results

The Group revenue for 2019 reached to AED 423.4 million (2018: AED 501 million), gain on valuation of properties amounted to AED 3.3 million (2018: gain on valuation of properties of AED 86.4 million) resulting in a total loss of AED 224 million (2018: total profit of AED 62.3 million), and total comprehensive loss amounted to AED 209 million (2018: total comprehensive income of AED 275 million as restated).

The Directors propose the following appropriations from retained earnings:

- According to the UAE Federal Law No.2 of 2015, no transfer has been made to the Statutory Reserve given that the Group incurred loss for the year ended 31 December 2019 (2018: 10% of profit amounting to AED 6.2 million has been transferred to the Statutory Reserve).
- The equity of the Company as at 31 December 2019 amounted to AED 2,709 million (2018: AED 2,930 million as restated).

## Directors

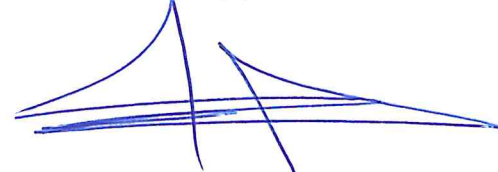
The Board of Directors comprised of:

Mr. Naser Butti Omair Bin Yousef	Chairman
Mr. Khalifa Hasan Ali Saleh Alhammadi	Vice Chairman & CEO
Mr. Mohamed Sultan Mohamed Ahmed AlOtaiba	Director
Mr. Dahi Yousef Ahmed Abdulla Al Mansoori	Director
Mr. Jorg Klar	Director
Mr. Abdullah Abdul Rahman Hassan Muhammad Al Rastumani	Director
NBB Capital Investment LLC, represented by Mr. Ahmed Mostafa Eldmnhoury	Director

## Auditors

M/s. Ernst & Young were appointed as auditors of the Company for the year ended 31 December 2019 at the Annual General Meeting held on 19 April 2019.

On behalf of the Board



Khalifa Hasan Ali Saleh Alhammadi  
Vice Chairman & CEO

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

### **Report on the Audit of the Consolidated Financial Statements**

#### **Qualified 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 2019, 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, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

#### **Basis for Qualified Opinion**

As required by International Financial Reporting Standards, the Group has undertaken a valuation exercise in respect of the investment properties held as at 31 December 2019 and has engaged an accredited independent registered valuer for this purpose, as disclosed in note 10 to the consolidated financial statements. We were provided with the valuation reports and access to the external valuer but were not able to obtain sufficient observable data to support some of the assumptions and judgments made in arriving at the fair values as at 31 December 2019. There were two areas where we were not able to obtain sufficient evidence:

- (i) During the year, the Group has undertaken a full review of the Masterplan for Dubai Motorcity and has submitted, for the approval of the concerned regulatory authorities, a formal request for the issuance of revised affection plans with amended gross floor areas (“GFA’s”). The Group expects to receive regulator approval on the revised affection plans in the near future, and accordingly, has assumed such approval in the inclusion of this GFA to the value of AED 351 million in the valuation of the Motorcity land bank as at 31 December 2019, which is contrary to the requirements of IFRS 13 Fair Value Measurement. As a result of this matter, we consider that the loss for the year is understated by AED 351 million with a corresponding overstatement in the carrying amount of investment properties and equity as at 31 December 2019.
- (ii) A number of investment properties were valued based on comparable market data and/or discounted future cash flows where we were unable to obtain sufficient observable data to support these assumptions. Consequently, we are unable to determine whether further adjustments to investment properties are required at 31 December 2019.

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

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

#### **Basis for Qualified Opinion (continued)**

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 Code of Ethics for Professional Accountants (including International Independence Standards)* (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.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2019. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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.

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.

## **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
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#### ***Valuation of Land under Property, Plant and Equipment***

We identified the valuation of land under property, plant and equipment as a key audit matter because significant judgement is involved in determining the inputs used in the valuation and because the Group has restated the consolidated financial statements in this respect.

The Group has recorded a restated valuation gain of AED 212.7 million in relation to this land which represented 77% of the Group's total comprehensive income for the year ended 31 December 2018.

The Group's land under property, plant and equipment is stated at fair value based on valuation carried out by independent qualified valuers (the "Valuers"). The valuation was dependent on certain key estimates which requires significant judgement, including discount rates and future expected cash flows, which are influenced by prevailing market forces and specific characteristics such as income return and growth rate.

We have performed the following procedures in relation to the valuation of the land under property, plant and equipment:

- We evaluated the competence, capabilities and objectivity of the Valuers by evaluating the qualifications, experience, and reputation of the Valuers;
- We assessed the appropriateness and reasonableness of the valuation methodology based on the nature and circumstances of the property, and the key assumptions and estimates used in the valuation by comparing with observable market data. We involved our internal property valuation specialists to assist in the assessment.

We have also reviewed the financial statements disclosures and presentation in relation to the restatement.

## **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
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#### ***Allowance for Expected Credit Losses of Trade Receivables***

As stated in notes 14 and 16 to the consolidated financial statements, as of the year-end, the Group had trade and retention receivables of AED 2,089 million before allowance for expected credit losses of AED 1,832 million.

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.

We focused on this area because it requires a high level of management judgement and due to the materiality of the amounts involved.

We assessed the Group's provisioning policy applied during the year 2019 on the current and prior year balances of 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.

We assessed the adequacy of the Group's disclosures in relation to trade and retention receivables included in the consolidated financial statements.

## **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
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#### ***Repayment of interest-bearing loans and borrowings***

Interest-bearing loans and borrowings as at 31 December 2019 amount to AED 1,809.6 million as stated in note 2.8 to the consolidated financial statements, which represent 57% of the total liabilities and the repayment obligations for 2020 is AED 1,416.7 million, including obligations payable on demand. 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.

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.

We evaluated the assumptions applied by the management for complying with the covenants and monitoring 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 compliance and liquidity forecasts.

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.

#### **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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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.

## **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)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (2) of 2015, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, we report that:

- 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 2019 are disclosed in Notes 12 and 13 to the consolidated financial statements;
- vi) Note 17 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 2019 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 2019; and
- viii) Note 33 reflects social contributions made during the year.

For Ernst & Young



Signed by:

Anthony O'Sullivan

Partner

Registration number: 687

25 March 2020

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 2019

	Notes	2019 AED'000	2018 AED'000 Restated
Revenue from contracts with customers	5	423,406	500,988
Net loss on financial instruments at FVTPL	13	(94,959)	(1,787)
Gain on disposal of a joint venture	12	-	125,014
Share of results of equity accounted investees	12	(20,923)	16,380
Gain/(loss) on valuation of investment properties, net	10	3,291	86,404
Loss on sale of investment properties	10	(12,829)	-
Finance income		3,542	4,102
Other income	7	136,078	119,700
Direct costs	5	(323,900)	(382,063)
Administrative and general expenses	6	(163,908)	(282,251)
Finance costs	9, 23 & 27	(174,079)	(124,158)
<b>(Loss)/profit for the year</b>		<b>(224,281)</b>	<b>62,329</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations	12	15,508	-
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>			
Revaluation of property	8	-	212,689
<b>Total other comprehensive income</b>		<b>15,508</b>	<b>212,689</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(208,773)</b>	<b>275,018</b>
<b>Basic and diluted earnings per share (AED)</b>	22	<b>(0.052)</b>	<b>0.015</b>

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 9.

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated statement of financial position

As at 31 December 2019

		31 December 2019	31 December 2018 Restated	1 January 2018
	Notes	AED'000	AED'000	AED'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	8	358,042	356,002	143,035
Right-of-use assets	9	31,048	-	-
Investment properties	10	4,111,636	4,211,112	3,718,645
Development properties	11	7,504	7,504	8,868
Investments in associates and a joint venture	12	481,937	499,757	493,757
Investments at fair value through profit or loss	13	184,516	-	-
Non-current receivables	14	33,285	60,179	299,259
<b>Total non-current assets</b>		<b>5,207,968</b>	<b>5,134,554</b>	<b>4,663,564</b>
<b>Current assets</b>				
Investments at fair value through profit or loss	13	12,996	298,144	93,250
Inventories	11	5,005	6,571	6,359
Contract assets	15	217,049	214,618	207,671
Trade and other receivables	16	293,374	291,925	483,688
Due from related parties	17	52,018	49,702	31,223
Cash in hand and at banks	18	75,482	97,498	129,657
<b>Total current assets</b>		<b>655,924</b>	<b>958,458</b>	<b>951,848</b>
<b>Total assets</b>		<b>5,863,892</b>	<b>6,093,012</b>	<b>5,615,412</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	19	4,289,540	4,289,540	4,289,540
Statutory reserve	20	332,880	332,880	326,647
Currency translation reserve	20	15,508	-	-
Asset revaluation surplus	20	212,689	212,689	-
Accumulated losses		(2,141,959)	(1,905,273)	(1,961,369)
<b>Total equity</b>		<b>2,708,658</b>	<b>2,929,836</b>	<b>2,654,818</b>
<b>Non-current liabilities</b>				
Non-current portion of bank loans	23	506,330	562,918	919,111
Contract liabilities	24	8,118	7,952	34,263
Lease liabilities	9	25,211	-	-
Provision for staff terminal benefits	25	34,074	35,447	40,464
<b>Total non-current liabilities</b>		<b>573,733</b>	<b>606,317</b>	<b>993,838</b>
<b>Current liabilities</b>				
Trade and other payables	26	1,168,458	1,247,441	1,218,856
Contract liabilities	24	102,615	88,476	105,229
Lease liabilities	9	7,131	-	-
Bank overdrafts	27	291,323	238,947	51,106
Current portion of bank loans	23	1,011,974	981,995	591,565
<b>Total current liabilities</b>		<b>2,581,501</b>	<b>2,556,859</b>	<b>1,966,756</b>
<b>Total liabilities</b>		<b>3,155,234</b>	<b>3,163,176</b>	<b>2,960,594</b>
<b>Total equity and liabilities</b>		<b>5,863,892</b>	<b>6,093,012</b>	<b>5,615,412</b>

These consolidated financial statements were authorised for issue by the Board of Directors on 24 March 2020



Board Member



Board Member

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 9.

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000 Restated
<b>Operating activities</b>			
(Loss)/profit for the year		(224,281)	62,329
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	8	12,359	12,928
Depreciation of right of use assets	9	4,677	-
Loss on sale of investment properties	10.7	12,829	-
Gain on fair valuation of investment properties	10	(3,291)	(86,404)
Share of results of equity accounted investees	12	20,923	(16,380)
Allowance for expected credit losses	30	26,934	13,264
Reversal of development properties provision	11	-	(9,421)
Loss on financial instruments at FVTPL	13	94,959	1,787
Gain on disposal of a joint venture		-	(125,014)
Finance income		(3,542)	(4,102)
Finance cost		174,079	124,158
<i>Operating cash flows before working capital changes</i>		115,646	(26,855)
Change in inventories		1,566	(212)
Change in contract assets		(2,431)	(6,947)
Change in trade and other receivables		(3,520)	(5,073)
Change in due from related parties		(2,316)	(18,479)
Change in trade and other payables and contract liabilities		(179,702)	(41,363)
Change in development properties		-	43,622
Change in staff terminal benefits - net		(1,373)	(5,017)
<i>Net cash used in from operating activities</i>		(72,130)	(60,324)
<b>Investing activities</b>			
Additions to property, plant and equipment	8	(16,210)	(15,990)
Additions to and acquisition of investment properties	10	(11,754)	(32,500)
Additions to development properties	11	-	(2,792)
Proceeds from/investments in financial instruments at FVTPL, net	13	5,673	(580,811)
Proceeds from sale of investment properties		101,692	-
Proceeds from disposal of a joint venture		-	500,000
Interest received		3,542	4,102
Change in deposit with banks		27,733	(31,583)
<i>Net cash from/(used in) investing activities</i>		110,676	(159,574)
<b>Financing activities</b>			
Bank loans availed	23	151,586	485,110
Repayment of bank loans	23	(178,195)	(450,873)
Payment of lease liabilities	9	(2,933)	-
Interest paid		(55,663)	(83,063)
<i>Net cash used in financing activities</i>		(85,205)	(48,826)
<b>Net decrease in cash and cash equivalents</b>		(46,659)	(268,724)
Cash and cash equivalents at the beginning of the year		(201,236)	67,488
<b>Cash and cash equivalents at the end of the year</b>	18	(247,895)	(201,236)

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 9.

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	Currency translation reserve AED'000	Asset revaluation surplus AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2018	4,289,540	326,647	-	-	(1,961,369)	2,654,818
Total comprehensive income for the year (restated)	-	-	-	212,689	62,329	275,018
<b>Other equity movements</b>						
Transfer to statutory reserve (note 20)		6,233	-	-	(6,233)	-
<b>At 31 December 2018 (restated)</b>	<b>4,289,540</b>	<b>332,880</b>	<b>-</b>	<b>212,689</b>	<b>(1,905,273)</b>	<b>2,929,836</b>
At 1 January 2019 (restated)	4,289,540	332,880	-	212,689	(1,905,273)	2,929,836
Effect of changes in accounting policies (note 3.2)	-	-	-	-	(12,405)	(12,405)
Total comprehensive loss for the year	-	-	15,508	-	(224,281)	(208,773)
<b>At 31 December 2019</b>	<b>4,289,540</b>	<b>332,880</b>	<b>15,508</b>	<b>212,689</b>	<b>(2,141,959)</b>	<b>2,708,658</b>

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 2 to 9.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements

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### **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 2.4.

The Company and its subsidiaries as set out in note 2.4 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, land under property, plant and equipment, 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 2018 is presented in these consolidated financial statements due to a retrospective restatement (note 32) and reclassification of items in the consolidated statement of financial position (note 32).

#### **2.4 Basis of consolidation**

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2019, 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
		2019	2018	
<b>Subsidiaries</b>				
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.
<b>Associates</b>				
Properties Investment LLC	UAE	30%	30%	Investment in and development of properties and property related activities.
Palm Hills Development PJSC	Egypt	12.31%	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)

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### 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 31.

#### 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 and land under property, plant and equipment, 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 2 BASIS OF PREPARATION (CONTINUED)

#### 2.7 Fair Value Measurement (continued)

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

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

The 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 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)

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### 2 BASIS OF PREPARATION (CONTINUED)

#### 2.8 Financial Commitments

The Group's loans and borrowings as at 31 December 2019 amounted to AED 1,809.6 million (AED 1,518.3 million of bank loans and AED 291.3 million of bank overdrafts). Furthermore, the Group has net current liabilities of AED 1,926 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)

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### 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)

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### 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 31.

##### ***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)

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### 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)

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### 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)

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### 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 currencies

###### *Transactions and balances*

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.

###### *Investments in other entities*

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

##### Finance income and expense

Finance income comprises interest income on fixed deposits. 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 as well as interest expense on lease liabilities effective 1 January 2019. 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, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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 2019 and 2018, land is measured at fair value less accumulated impairment losses recognised after the date of revaluation. 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 equipment	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)

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### 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)

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### 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 and due from related parties.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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)

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### 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 and retentions receivable 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, lease liabilities, and loans and borrowings including bank overdrafts.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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 and lease liabilities 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 consolidated 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 consolidated 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, if any, 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 consolidated statement of cash flows.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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)

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### 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 – before 1 January 2019**

##### *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)

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Summary of significant accounting policies (continued)

##### *Leases - from 1 January 2019*

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets between 3 to 25 years.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

##### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Summary of significant accounting policies (continued)

##### *Leases - from 1 January 2019 (continued)*

##### *Group as a lessee (continued)*

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

##### *Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to 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 the consolidated statement of profit or loss. 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 recognized as revenue in the period in which they are earned.

##### **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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Changes in accounting policies and disclosures

##### New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard and the effect of applying the amendments to IAS 23 *Borrowing costs* are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

##### *IFRS 16 Leases*

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	<i>AED'000</i>
<b>Assets</b>	
Right-of-use assets	35,725
Prepayments	(2,031)
	<hr/> 33,694
<b>Liabilities</b>	
Lease liabilities	<hr/> 33,694
<b>Equity</b>	
Retained earnings	<hr/> - <hr/>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Changes in accounting policies and disclosures (continued)

##### New and amended standards and interpretations (continued)

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

The Group has lease contracts for various properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating leases. Refer to Note 3.1 *Operating leases payments* for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3.1 *Leases* for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, some of which have been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	<i>AED'000</i>
Operating lease commitments as at 31 December 2018	14,962
Less:	
Commitments relating to short-term leases	(3,336)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	34,337
	<hr/>
Undiscounted operating lease commitments as at 1 January 2019	45,963
Weighted average incremental borrowing rate as at 1 January 2019	6.25%
	<hr/>
Lease liabilities as at 1 January 2019	33,694
	<hr/> <hr/>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Changes in accounting policies and disclosures (continued)

##### New and amended standards and interpretations (continued)

###### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

The Group adopted these amendments effective 1 January 2019 with retrospective effect. The application of these amendments had a significant effect on the financial statements of one of the Group's associates, which resulted in a negative adjustment to the Group's opening equity at 1 January 2019 of AED 12.4 million recorded directly in accumulated losses. The Group did not restate the 2018 profit or loss as the effect on the 2018 share of results of the associate was not material.

###### *Other amendments and interpretations*

Although the below amendments and interpretations applied for the first time in 2019, they did not have a material impact on the annual consolidated financial statements of the Group.

- IFRIC Interpretation 23: *Uncertainty over Income Tax Treatment*
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28: *Long-term interests in associates and joint ventures*
- Amendments to IFRS 3: *Business Combinations*
- Amendments to IFRS 11: *Joint Arrangements*
- Amendments to IAS 12: *Income Taxes*

###### **Standards issued but not yet effective**

There are several standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements and are not expected to have any significant impact on the Group's consolidated financial statements when they become effective, and accordingly, have not been listed in these consolidated financial statements.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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 2019 and 2018, 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)

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### 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 30. 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 30.

##### *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 consolidated statement of financial position at 31 December 2019 and 2018 is the carrying amounts as illustrated in Note 30.

#### 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, lease liabilities, 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 30.

#### 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)

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### 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 30.

##### *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 30.

#### 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 2019			
	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total AED'000
<i>Type of goods or service</i>				
Property rentals	68,929	-	-	68,929
Mechanical, electricidal and plumbing	-	13,692	-	13,692
Facility management and maintenance services	-	-	223,781	223,781
Interior architecture	-	61,123	-	61,123
Motor racing services	-	-	32,732	32,732
Sale of goods	-	-	23,149	23,149
<b>Total revenue from contracts with customers</b>	<b>68,929</b>	<b>74,815</b>	<b>279,662</b>	<b>423,406</b>
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	-	-	23,149	23,149
Services transferred over time	68,929	13,692	256,513	339,134
Goods and services (bundled) transferred over time	-	61,123	-	61,123
<b>Total revenue from contracts with customers</b>	<b>68,929</b>	<b>74,815</b>	<b>279,662</b>	<b>423,406</b>
<b>Direct costs</b>	<b>(41,347)</b>	<b>(63,757)</b>	<b>(218,796)</b>	<b>(323,900)</b>
<b>Gross profit</b>	<b>27,582</b>	<b>11,058</b>	<b>60,866</b>	<b>99,506</b>
Segments	For the year ended 31 December 2018			
	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total 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
<b>Total revenue from contracts with customers</b>	<b>130,853</b>	<b>75,408</b>	<b>294,727</b>	<b>500,988</b>
<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
<b>Total revenue from contracts with customers</b>	<b>130,853</b>	<b>75,408</b>	<b>294,727</b>	<b>500,988</b>
<b>Direct costs</b>	<b>(96,654)</b>	<b>(58,885)</b>	<b>(226,524)</b>	<b>(382,063)</b>
<b>Gross profit</b>	<b>34,199</b>	<b>16,523</b>	<b>68,203</b>	<b>118,925</b>

# 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:

	2019 AED'000	2018 AED'000
Staff costs	148,187	142,075
Development properties recognised as cost	-	53,044
Property service charges	33,660	32,287
Inventories recognised as cost	28,619	13,496
Depreciation (note 8)	3,474	4,533

#### 5.3 Contract balances

	2019 AED'000	2018 AED'000
Trade and retention receivables (note 14 & 16)	257,806	268,118
Contract assets (note 15)	217,049	214,618
Contract liabilities (note 24)	110,733	96,428

##### *Trade receivables*

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days from the date of sale.

##### *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 2019, AED 26.9 million was recognised as allowance for expected credit losses on trade and retentions receivables (2018: AED 13.3 million).

##### *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 2019, no allowance for expected credit losses on contract assets was recognised (2018: 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 24).

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 5 REVENUE AND DIRECT COSTS (CONTINUED)

#### 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:

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Within one year	<b><u>10,225</u></b>	<b><u>16,194</u></b>

##### 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.

##### 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 6 ADMINISTRATIVE AND GENERAL EXPENSES

	2019 AED'000	2018 AED'000
<i>These include the following:</i>		
Staff costs	73,275	83,109
Professional fees and licenses	25,023	61,775
Depreciation of property, plant and equipment (note 8)	8,885	8,395
Depreciation of right of use assets (note 9)	4,677	-
Marketing and advertising expenses	3,837	11,508
Expected credit loss expense on receivables (note 30)	26,934	13,264
Office expenses	6,822	11,201

### 7 OTHER INCOME

	2019 AED'000	2018 AED'000
Reversals of liabilities (refer note below)	105,210	90,138
Miscellaneous income	30,868	29,562
	<b>136,078</b>	<b>119,700</b>

The reversals of liabilities are mainly related to payables and accruals in relation to completed projects and cancelation of contracts 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
<b>Cost and revaluation:</b>								
At 1 January 2018	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) (restated)	212,689	-	-	-	-	-	-	212,689
Disposals	-	-	(1,543)	(4,608)	(377)	(1,061)	-	(7,589)
Transfers	-	(1,204)	-	3,185	-	-	(3,185)	(1,204)
At 31 December 2018 (restated)	251,977	135,169	35,488	81,577	59,858	12,931	12,464	589,464
Additions	-	718	332	2,137	917	194	11,912	16,210
Disposals	-	-	(906)	(546)	(2,036)	(774)	(278)	(4,540)
<b>At 31 December 2019</b>	<b>251,977</b>	<b>135,887</b>	<b>34,914</b>	<b>83,168</b>	<b>58,739</b>	<b>12,351</b>	<b>24,098</b>	<b>601,134</b>
<b>Depreciation:</b>								
At 1 January 2018	-	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
Charge for the year	-	5,926	345	3,594	1,794	700	-	12,359
Disposals	-	-	(907)	(545)	(593)	(684)	-	(2,729)
<b>At 31 December 2019</b>	<b>-</b>	<b>64,543</b>	<b>33,820</b>	<b>82,050</b>	<b>50,459</b>	<b>12,220</b>	<b>-</b>	<b>243,092</b>
<b>Net carrying amount:</b>								
<b>At 31 December 2019</b>	<b>251,977</b>	<b>71,344</b>	<b>1,094</b>	<b>1,118</b>	<b>8,280</b>	<b>131</b>	<b>24,098</b>	<b>358,042</b>
At 31 December 2018 (restated)	251,977	76,552	1,106	2,576	10,600	727	12,464	356,002

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 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 on a prospective basis in 2018. Therefore, the fair value of the land was not measured at 1 January 2018.

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 valuer. 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.

During 2019, management reassessed the significant unobservable inputs used in the valuation performed at 31 December 2018, which resulted in revising certain inputs, and accordingly, the previously recorded gain on revaluation of AED 390 million was decreased by AED 177 million whereby a restated gain of AED 213 million from the revaluation of the land was recognised in OCI in 2018, representing a level 3 revaluation gain. Management believes that the carrying amount of the revalued land at 31 December 2019 does not differ materially from its fair value.

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:

	2019 AED'000	2018 AED'000
Recognised as cost (note 5.2)	3,474	4,533
Recognised as general and administrative expenses (note 6)	8,885	8,395
	<u>12,359</u>	<u>12,928</u>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 9 LEASES

#### 9.1 Group as lessee

The Group has lease contracts for plots of land and an office used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is not restricted from assigning and subleasing the leased lands. There are several lease contracts that include extension and termination options, which are further discussed below.

The Group also has certain leases of buildings and vehicles with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<i>Properties</i> <i>AED'000</i>
As at 1 January 2019	-
Upon adoption of IFRS 16 (Note 3.2)	35,725
Depreciation (Note 6)	(4,677)
<b>As at 31 December 2019</b>	<b>31,048</b>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	<b>2019</b> <b>AED'000</b>
As at 1 January	-
Upon adoption of IFRS 16 (Note 3.2)	33,694
Accretion of interest	1,562
Payments	(2,914)
<b>As at 31 December 2019</b>	<b>32,342</b>
Current	7,131
Non-current	25,211

The maturity analysis of lease liabilities is disclosed in Note 30.



# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 9 LEASES (CONTINUED)

#### 9.1 Group as lessee (continued)

The following are the amounts recognised in profit or loss:

	2019 AED'000
Depreciation expense of right-of-use assets (Note 6)	4,677
Interest expense on lease liabilities	1,562
Expense relating to short-term leases	6,580
	<hr/>
Total amount recognised in profit or loss	12,819
	<hr/> <hr/>

The Group had total cash outflows for leases of AED 2,933 thousand in 2019, non-cash additions to right-of-use assets and lease liabilities of AED 35,725 thousand and AED 33,694 thousand, respectively, in 2019 upon adoption of IFRS 16. There are no future cash outflows relating to leases that have not yet commenced at the reporting date.

The Group does not have lease contracts that contain variable payments.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 31).

The Group accounted for the extension options of all land lease contracts as part of its lease liabilities determination given the short-term contractual terms of these contracts and the long-term business needs of the Group. The undiscounted potential future rental payments relating to periods following the exercise date of the extension option related to the lease of an office that are not included in the lease term are AED 15.3 million exercisable within five years.

#### 9.2 Group as lessor

The Group has entered into operating leases on its investment property portfolio consisting of commercial and residential properties (see Note 10). These leases have terms of between one and five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties.

Rental income recognised by the Group during the year is AED 68.9 million (2018: AED 64 million).

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 10 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:

	2019 AED'000	2018 AED'000
At 1 January	4,211,112	3,718,645
Additions during the year	-	32,500
Transfer to development properties (note 11)	-	(46,637)
Transfer from development properties (note 11)	-	7,170
Acquisition during the year	11,754	-
Transfer from property, plant and equipment (note 8)	-	893
Transfer from receivables (note 10.1)	-	412,137
Gain on fair valuation (note 10.5), net	3,291	86,404
Sale of investment properties (note 10.7)	(114,521)	-
At 31 December	4,111,636	4,211,112

#### 10.1 Transfer from receivables

During the previous 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.

#### 10.2 Transfer from development properties

During the previous year, 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.

#### 10.3 Transfer to development properties

During the previous year, the Group transferred properties amounting to AED 46.6 million from investment properties to development properties upon change in use. These properties were also sold during the previous year.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 10 INVESTMENT PROPERTIES (CONTINUED)

#### 10.4 Transfer from property, plant and equipment

During the previous year, the Group transferred properties amounting to AED 0.9 million from property, plant and equipment to investment properties upon change in use.

#### 10.5 Valuation of investment properties

As at 31 December 2019 and 2018, 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 year end.

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 2019 and 2018.

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.

Accordingly, based on the above valuation, fair value gains of AED 3.3 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2019 (2018: AED 86.4 million). The fair value gain of AED 3.3 million in 2019 includes AED 350.9 million of valuation gain on additional gross floor area that has been allocated to the Company's land bank (refer note 10.6).

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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 10 INVESTMENT PROPERTIES (CONTINUED)

#### 10.6 Valuation gain on additional gross floor area

In 2019, the Company engaged an independent third-party consultant to support the Company in the allocation of unutilized 1.8 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. Management submitted the revised plans including the additional gross floor area to the concerned authorities and expects to receive approval on the same during 2020. The additional gross floor area has been included in the value of investment properties at 31 December 2019 as management does not anticipate complications in obtaining the required authority approvals.

#### 10.7 Sale of investment properties

During the year, investment properties with a carrying value of AED 114.5 million were disposed of for a consideration of AED 101.7 million resulting in a loss of AED 12.8 million.

#### 10.8 Acquisition of investment properties

During the year, the Group acquired a plot of land in Motor City for AED 11.8 million, which was previously sold, as part of an exchange deal made with the same buyer, whereby the latter acquired another land from the Group in the same area for a consideration of AED 45.1 million. This transaction resulted in a net gain of AED 0.3 million including the gain on valuation of the acquired property at 31 December 2019.

#### 10.9 Capitalised borrowing costs

The construction of a residential property development, which was completed during the previous year, was financed by a banking facility whereby the Group has capitalised borrowing costs during the previous year of AED 5.8 million

#### 10.10 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 10 INVESTMENT PROPERTIES (CONTINUED)

#### 10.10 Description of valuation techniques used and key inputs to valuation of investment properties (continued)

##### *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 2018.

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

### 11 INVENTORIES

#### *Trading and project related inventories*

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Project related material (net of provision for slow moving materials)	<b>440</b>	1,790
Stock-in-trade	<b>3,736</b>	3,879
Spares and consumables	<b>829</b>	902
	<b>5,005</b>	6,571

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 11 INVENTORIES (CONTINUED)

#### *Development properties*

	2019 AED'000	2018 AED'000
At 1 January	7,504	8,868
Additions during the year	-	2,792
Transfer from investment properties (refer note 10)	-	46,637
Cost of properties sold (note 5.2)	-	(53,044)
Reversal of provision	-	9,421
Transfer to investment properties (refer note 10)	-	(7,170)
At 31 December	<u>7,504</u>	<u>7,504</u>

Development properties at 31 December 2019 are stated net of provision of AED 1.6 million (2018: AED 1.6 million). During the previous year an amount of AED 9.4 million was reversed from the provision balance in profit or loss.

### 12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

#### *Investments in associates*

##### *Investment in Palm Hills Development*

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

During the previous 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, during 2018, 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 12) 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 was provisionally accounted for as embedded goodwill at acquisition.

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 results of equity accounted investees in the consolidated statement of profit or loss. In addition, during the same period, 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

#### *Investments in associates (continued)*

##### *Investment in Palm Hills Development (continued)*

As a result of the disposal of 22.3 million shares, the amount of the embedded goodwill decreased to AED 121 million at 31 December 2018.

During 2019, Palm Hills Development PJSC issued 39 million new shares to the public, to which the Group did not subscribe. As a result, the Group's shareholding in the associate decreased to 12.31% at 31 December 2019.

During the year, management engaged an independent third party specialist to complete the purchase price allocation exercise as required by IFRSs. As a result, the embedded goodwill has been entirely allocated to the different categories of assets and liabilities of the associate as the difference between book value and fair value at the date of acquisition, with no additional material tangible or intangible assets identified. Management has taken account of the change in the Group's shareholding in the associate in the prior year in its purchase price allocation exercise.

The Group continues to exercise significant influence over the investee through its board representation as mentioned above.

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 investment has a fair value of AED 154.5 million at 31 December 2019.

The following table illustrates the summarised financial information of the Group's investment in the associate as at and for the year ended 31 December 2019 (2018: 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 2018 consolidated financial statements):

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

#### *Investments in associates (continued)*

#### *Investment in Palm Hills Development (continued)*

	2019 AED'000	2018 AED'000
<b>Financial position:</b>		
Non-current assets	4,334,616	3,244,585
Current assets	3,955,519	3,540,997
Non-current liabilities	(1,723,406)	(1,516,341)
Current liabilities	(4,294,904)	(3,722,384)
Non-controlling interests	(126,890)	(107,744)
Equity	2,144,935	1,439,113
Group's share of equity - 12.31% (31 December 2018: 12.47%)	264,042	253,140
Fai value adjustment of identifiable net assets acquired	121,246	128,234
Disposal of shares during 4th quarter 2018	-	(20,557)
<b>Carrying amount at 31 December</b>	<b>385,288</b>	<b>360,817</b>
	2019 AED'000	2018 AED'000
<b>Profit or loss:</b>		
Revenue and income	1,699,308	469,268
Costs and expenses	(1,605,615)	(420,811)
Non-controlling interests	(18,051)	(7,273)
Profit for the year/period	75,642	41,184
<b>Share of profit for the year/period</b>	<b>8,963</b>	<b>7,244</b>
	2019 AED'000	2018 AED'000
<b>Movement for the year</b>		
Opening balance	360,817	-
Transfer from investments at fair value through profit or loss	-	374,130
Share of results	8,963	7,244
Disposal of shares during 4th quarter 2018	-	(20,557)
Exchange differences on translation of foreign operations	15,508	-
<b>Closing balance</b>	<b>385,288</b>	<b>360,817</b>



# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

#### *Investments in associates (continued)*

##### *Investment in Properties Investment LLC*

The Group has a 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:

	2019 AED'000	2018 AED'000
<b>Financial position:</b>		
Non-current assets	214,795	263,970
Current assets	683,813	746,165
Non-current liabilities	(371,027)	(350,022)
Current liabilities	(205,419)	(196,984)
Equity	322,162	463,129
Group's share of equity - 30%	96,649	138,939
	2019 AED'000	2018 AED'000
<b>Profit or loss:</b>		
Income	63,108	(37,347)
Expenses	(162,723)	(46,955)
Profit/(loss) for the year	(99,615)	(84,302)
Group's share of profit/(loss) - 30%	(29,885)	(25,291)
	2019 AED'000	2018 AED'000
<b>Movement for the year</b>		
Opening balance	138,940	164,231
Effect of change in an accounting policy (note 3.2)	(12,405)	-
Share of results	(29,886)	(25,291)
Closing balance	96,649	138,940

#### *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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 13 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2019 AED'000	2018 AED'000
Quoted funds	-	286,230
Quoted equities	196,164	10,566
Unquoted equity	1,348	1,348
	<u>197,512</u>	<u>298,144</u>

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

	2019 AED'000	2018 AED'000
At 1 January	298,144	93,250
Additions	2,107,777	940,233
Disposals	(2,113,450)	(359,422)
Transfer to investment in associate (note 12)	-	(374,130)
Loss on revaluation	(94,959)	(1,787)
At 31 December	<u>197,512</u>	<u>298,144</u>

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

#### Level 1:

	2019 AED'000	2018 AED'000
At 1 January	296,796	91,902
Additions	2,107,777	940,233
Disposals	(2,113,450)	(359,422)
Transfer to investment in associate	-	(374,130)
Total loss, net		
-in the consolidated statement of profit or loss	<u>(94,959)</u>	<u>(1,787)</u>
At 31 December	<u>196,164</u>	<u>296,796</u>

The Group holds investment securities which are classified as investments at fair value through profit or loss in accordance with IFRS 9.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 13 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

At 31 December 2019, investments amounting to AED 184.5 million are classified as non-current assets in the consolidated statement of financial position as the management intends to hold those investments for a period exceeding 12 months from the reporting date.

#### *Investments in quoted funds and quoted equities*

During the year, the Group sold investments in funds and invested in various listed equity investments, having a fair value of AED 196.2 million at the reporting date (2018: investments in funds AED 286 million), which resulted in a net loss on change in fair value of AED 95 million during the year (2018: loss of AED 1.8 million).

The Group also has an investment in a real estate fund valued at AED 1.35 million at year-end (2018: AED 1.35 million).

#### *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 2018 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 2018.

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 12). Accordingly, the investment with fair value of AED 374.1 million at 30 June 2018 was transferred to investment in associate representing the cost of acquisition of the associate.

### 14 NON-CURRENT RECEIVABLES

	2019 AED'000	2018 AED'000
Retention receivables	5,258	24,679
Property sales receivables	28,027	35,500
	<u>33,285</u>	<u>60,179</u>

The Group's exposure to credit risk and impairment losses related to financial assets are disclosed in note 30.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 15 CONTRACT ASSETS

	2019 AED'000	2018 AED'000
Contract work-in-progress (note 5.3)	198,721	197,835
Unbilled revenue	18,328	16,783
	<u>217,049</u>	<u>214,618</u>

### 16 TRADE AND OTHER RECEIVABLES

	2019 AED'000	2018 AED'000
<b>Financial instruments</b>		
Trade receivables	1,927,019	1,939,103
Retention receivables	64,405	54,179
Property sales receivables	64,747	20,032
	<u>2,056,171</u>	<u>2,013,314</u>
Less: provision for allowance for expected credit losses	(1,831,650)	(1,805,375)
	<u>224,521</u>	<u>207,939</u>
Other receivables	40,901	30,265
<b>Total (A)</b>	<u>265,422</u>	<u>238,204</u>
<b>Non-financial instruments</b>		
Advances to contractors	13,728	28,429
Prepayments and advances	14,224	25,292
<b>Total (B)</b>	<u>27,952</u>	<u>53,721</u>
<b>Total (A+B)</b>	<u>293,374</u>	<u>291,925</u>

The Group's exposure to credit risk and impairment losses related to receivables are disclosed in note 30.

### 17 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 an equity accounted investee of AED 20.5 million (2018: AED 19.3 million) and other related parties of AED 31.5 million (2018: 30.4 million).

The Group's exposure to credit risk and liquidity risk related to related party balances are disclosed in note 30.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 17 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions with related parties include revenue of AED 2.5 million (2018: AED 26.9 million).

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

	2019 AED'000	2018 AED'000
Salaries and other short term employee benefits	11,625	18,778
Provision towards employees terminal benefits	451	716

### 18 CASH IN HAND AND AT BANKS

	2019 AED'000	2018 AED'000
Cash in hand	734	658
Cash at banks		
– in deposit accounts held under lien	16,872	42,646
– in current accounts	42,694	37,053
– in other deposit accounts	15,182	17,141
	<u>75,482</u>	<u>97,498</u>

#### (a) Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash and cash equivalents comprise:		
Cash in hand and at banks (excluding deposits under lien)	43,428	37,711
Bank overdrafts (refer note 27)	(291,323)	(238,947)
	<u>(247,895)</u>	<u>(201,236)</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 30.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 19 SHARE CAPITAL

	2019 AED'000	2018 AED'000
<i>Issued and fully paid up at 31 December</i>		
4,289,540,134 (2018: 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 2019, 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 2019, the authorised share capital of the Company is 7 billion shares.

### 20 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 did not make any transfer to statutory reserve given that it incurred a loss (2018: AED 6.2 million were transferred to the statutory reserve).

#### 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.

#### Currency translation reserve

The exchange differences arising on translation of foreign operations are recognised in OCI and are accumulated in equity under currency translation reserve.

### 21 DIRECTORS' FEES

This represents professional fees 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. During 2019 and 2018 no directors' fees were paid.

### 22 BASIC AND DILUTED EARNINGS PER SHARE

	2019	2018
<i>(Loss)/profit attributable to shareholders (AED'000)</i>	<b>(224,281)</b>	62,329
Weighted average number of shares	<u>4,289,540,134</u>	<u>4,289,540,134</u>
Basic and diluted earnings per share (AED)	<u><b>(0.052)</b></u>	<u>0.015</u>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 23 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 30.

	2019 AED'000	2018 AED'000
At 31 December	1,518,304	1,544,913
Less: Current portion	(1,011,974)	(981,995)
Non-current portion	506,330	562,918

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:

	2019 AED'000	2018 AED'000
At 1 January	1,544,913	1,510,676
Availed during the year	151,586	485,110
Repayments during the year	(178,195)	(450,873)
At 31 December	1,518,304	1,544,913

Bank loans mainly include the following facilities:

- (i) In 2014, 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 2019, the loan amount outstanding is AED 478.2 million (2018: AED 478.2 million). At 31 December 2019, the loan has been classified as a current liability due to breach in contractual payment.

- (ii) 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 2019, the loan was fully settled (2018: AED 3.2 million).

- (iii) During the year, the Company obtained a long-term bank loan from a local bank of AED 12.6 million. The loan is repayable in thirteen quarterly instalments that commenced in December 2019 plus interest. At 31 December 2019, the loan amount outstanding is AED 12.6 million.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 23 BANK LOANS (CONTINUED)

- (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 2019, the loan amount outstanding is AED 399 million (2018: AED 412.5 million).

As at 31 December 2018, 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 2019, 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 October 2019. At 31 December 2019, the loan amount outstanding is AED 182 million (2018: AED 216 million).
- (vi) During the previous 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. The new facility is repayable in 39 quarterly instalments on an increasing balance basis that commenced in September 2018 and a final instalment of AED 129.5 million due in March 2028. The loan has a balance of AED 323 million at year-end (2018: AED 336 million).
- (vii) During the previous 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 69.6 million at year-end (2018: AED 87.5 million).
- (viii) Bills discounting facilities having a balance of AED 63 million at year-end (2018: AED 11.4 million).

#### Securities

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

- Registered mortgage of lands and properties with a fair value of AED 2,408 million at 31 December 2019 (2018: AED 2,411 million);
- Assignment of insurance policies of the mortgaged properties;
- Assignment of lease proceeds of certain rental units; and
- Corporate guarantees of the Company and certain subsidiaries;
- Assignment of receivables; and
- Assignment of escrow account of one of the projects

### 24 CONTRACT LIABILITIES

	2019 AED'000	2018 AED'000
Advances from customers - current	97,667	83,250
Advances from customers - non-current	8,118	7,952
Excess billings over project WIP	4,948	5,226
	<u>110,733</u>	<u>96,428</u>



# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 24 CONTRACT LIABILITIES (continued)

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.

### 25 PROVISION FOR STAFF TERMINAL BENEFITS

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

	2019 AED'000	2018 AED'000
At 1 January	35,447	40,464
Provision made during the year	5,016	5,683
Payments made during the year	(6,389)	(10,700)
At 31 December	<u>34,074</u>	<u>35,447</u>

### 26 TRADE AND OTHER PAYABLES

	2019 AED'000	2018 AED'000
<b>Financial instruments</b>		
Trade payables	314,222	360,533
Retention payables	39,351	61,646
Other payables and accruals (refer (a) below)	814,885	825,262
<b>Total</b>	<u>1,168,458</u>	<u>1,247,441</u>

Other payable and accruals include:

	2019 AED'000	2018 AED'000
Provisions and accruals against contracting business	518,870	536,997
Provision for staff related payables	29,358	29,857
Provisions and accruals for payment to contractors cost	<u>34,297</u>	<u>10,071</u>

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 30.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 27 BANK OVERDRAFTS

	2019 AED'000	2018 AED'000
Bank overdrafts	<u>291,323</u>	<u>238,947</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:

- Pledge over the shares of Palm Hills Development;
- 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.

At 31 December 2019, the Group is in breach of a contractual clause of one of its overdraft facilities having a carrying amount of AED 210.2 million at the reporting date. The facility is pledged over the Group's entire investment in its foreign associate, which have not been liquidated by the bank up to the date of the issuance of the Group's consolidated financial statements. Management does not expect the bank to exercise its contractual right to liquidate the shares based on its communication with the bank, and accordingly, the Group continues to classify the investment under non-current assets.

For more information about the Group's exposure to liquidity risk and interest rate risk, refer note 30.

### 28 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	2019 AED'000	2018 AED'000
<i>Company and its subsidiaries</i>		
Commitments:		
Capital commitments	<u>34,297</u>	<u>12,015</u>
Contingent liabilities:		
Letters of guarantee	<u>294,452</u>	<u>309,960</u>
<i>An associate</i>		
Contingent liabilities:		
Letters of guarantee	<u>252,500</u>	<u>252,500</u>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 28 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

During 2016, a Corporate guarantee was issued by the Company in favour 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 reviews 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.

### 29 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:

	As previously reported AED'000	Reclassification AED'000	As currently reported AED'000
Contract assets	197,835	16,783	214,618
Trade and other receivables	339,133	(47,208)	291,925
Due from related parties	19,277	30,425	49,702

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 29 SEGMENT REPORTING (continued)

	Real estate	Contracting	Goods and services	Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>2019</b>					
Segment revenue	68,929	74,815	279,662	-	423,406
Loss on financial instruments at FVTPL	-	-	-	(94,959)	(94,959)
Share of results of associates	-	-	-	(20,924)	(20,924)
Gain on valuation of properties, net	3,291	-	-	-	3,291
Loss on sale of investment properties	(12,829)	-	-	-	(12,829)
Finance income	3,193	307	42	-	3,542
Other income	130,345	251	5,122	361	136,079
Direct costs	(41,347)	(63,757)	(218,796)	-	(323,900)
Administrative and general expenses	(89,275)	(18,938)	(37,635)	(18,060)	(163,908)
Finance costs	(66,558)	(46,367)	(7,786)	(53,368)	(174,079)
<b>Profit/(loss) for the year</b>	<b>(4,251)</b>	<b>(53,689)</b>	<b>20,609</b>	<b>(186,950)</b>	<b>(224,281)</b>
<b>Capital expenditure</b>	<b>25,120</b>	<b>305</b>	<b>2,539</b>	<b>-</b>	<b>27,964</b>
<b>Depreciation</b>	<b>10,967</b>	<b>432</b>	<b>5,637</b>	<b>-</b>	<b>17,036</b>
Segment assets	4,704,705	285,625	193,627	197,998	5,381,955
Investments in associates	-	-	-	481,937	481,937
<b>Total assets</b>	<b>4,704,705</b>	<b>285,625</b>	<b>193,627</b>	<b>679,935</b>	<b>5,863,892</b>
<b>Segment liabilities</b>	<b>1,268,845</b>	<b>1,485,740</b>	<b>185,592</b>	<b>215,057</b>	<b>3,155,234</b>
<b>2018</b>					
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, net	86,404	-	-	-	86,404
Finance income	3,777	198	127	-	4,102
Other income	94,166	11,919	10,636	2,979	119,700
Direct costs	(96,654)	(58,885)	(226,524)	-	(382,063)
Administrative and general expenses	(186,619)	(31,030)	(43,491)	(21,111)	(282,251)
Finance costs	(49,775)	(39,058)	(7,082)	(28,243)	(124,158)
<b>Profit/(loss) for the year</b>	<b>(17,848)</b>	<b>(41,448)</b>	<b>28,393</b>	<b>93,232</b>	<b>62,329</b>
<b>Capital expenditure</b>	<b>48,588</b>	<b>477</b>	<b>2,217</b>	<b>-</b>	<b>51,282</b>
<b>Depreciation</b>	<b>6,621</b>	<b>772</b>	<b>5,535</b>	<b>-</b>	<b>12,928</b>
Segment assets	4,930,119	319,074	221,861	299,523	5,770,577
Investment in an associate and joint venture	-	-	-	499,757	499,757
<b>Total assets</b>	<b>4,930,119</b>	<b>319,074</b>	<b>221,861</b>	<b>799,280</b>	<b>6,270,334</b>
<b>Segment liabilities</b>	<b>1,285,655</b>	<b>1,533,054</b>	<b>184,644</b>	<b>159,823</b>	<b>3,163,176</b>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 30 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 banks. Financial liabilities of the Group include trade and other payables, amounts due to related parties, lease liabilities, 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:

		<b>At fair value through profit or loss AED'000</b>	<b>At amortized cost AED'000</b>	<b>Carrying amount AED'000</b>	<b>Fair value AED'000</b>
	<i>Notes</i>				
<b>31 December 2019</b>					
<b>Financial assets</b>					
Non-current receivables	14	-	33,285	33,285	33,285
Investments at fair value through profit or loss	13	197,512	-	197,512	197,512
Trade and other receivables	16	-	265,422	265,422	265,422
Due from related parties	17	-	52,018	52,018	52,018
Cash in hand and at banks	18	-	75,482	75,482	75,482
<b>Total</b>		<b>197,512</b>	<b>426,207</b>	<b>623,719</b>	<b>623,719</b>
<b>Financial liabilities</b>					
Trade and other payables	26	-	1,168,458	1,168,458	1,168,458
Bank overdrafts	27	-	291,323	291,323	291,323
Bank loans	23	-	1,518,304	1,518,304	1,518,304
Lease liabilities	9	-	32,342	32,342	32,342
<b>Total</b>		<b>-</b>	<b>3,010,427</b>	<b>3,010,427</b>	<b>3,010,427</b>

# Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

## 30 FINANCIAL INSTRUMENTS (CONTINUED)

	<i>Notes</i>	<b>At fair value through profit or loss AED'000</b>	<b>At amorized cost AED'000</b>	<b>Carrying amount AED'000</b>	<b>Fair value AED'000</b>
<b>31 December 2018</b>					
<b>Financial assets</b>					
Non-current receivables	14	-	60,179	60,179	60,179
Investments at fair value through profit or loss	13	298,144	-	298,144	298,144
Trade and other receivables	16	-	238,204	238,204	238,204
Due from related parties	17	-	19,277	19,277	19,277
Cash in hand and at banks	18	-	97,498	97,498	97,498
Total		<u>298,144</u>	<u>415,158</u>	<u>713,302</u>	<u>713,302</u>
<b>Financial liabilities</b>					
Trade and other payables	26	-	1,247,441	1,247,441	1,247,441
Bank overdrafts	27	-	238,947	238,947	238,947
Bank loans	23	-	1,544,913	1,544,913	1,544,913
Total		<u>-</u>	<u>3,031,301</u>	<u>3,031,301</u>	<u>3,031,301</u>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 30 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:

	<i>Notes</i>	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Non-current receivables (refer note below)	14	<b>33,285</b>	60,179
Investments at fair value through profit or loss	13	<b>197,512</b>	298,144
Trade and other receivables (refer note below)	16	<b>265,422</b>	238,204
Due from related parties	17	<b>52,018</b>	19,277
Cash at banks	18	<b>74,748</b>	96,840
		<b>622,985</b>	<b>712,644</b>

##### *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>&gt;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>
<b>31 December 2019</b>						
Expected credit loss rate	75.43%	3.00%	24.34%	16.12%	99.90%	
Gross amount	69,663	134,876	25,068	97,451	1,754,924	2,081,982
Expected credit loss rate	<u>52,550</u>	<u>4,053</u>	<u>6,101</u>	<u>15,708</u>	<u>1,753,238</u>	<u>1,831,650</u>
<b>31 December 2018</b>						
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
Expected credit loss rate	64,478	4,191	5,856	9,397	1,721,453	1,805,375

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 30 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:

	2019 AED'000	2018 AED'000
At 1 January	1,805,375	1,792,210
Provision for the year (refer note 6)	26,934	13,264
Amounts written off	(659)	(99)
At 31 December (note 16)	<u>1,831,650</u>	<u>1,805,375</u>

#### Foreign currency risk

The Group's exposure to foreign currency risk is mainly related to a banking facility denominated in Egyptian Pounds. A 5% strengthening in the Egyptian Pound against the AED will result in a negative impact of AED 10.5 million on profit or loss and equity (2018: AED 7.9 million). A 5% devaluation in the Egyptian Pound against the AED would have the opposite effect.



# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 30 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
<b>Financial liabilities</b>							
<b>31 December 2019</b>							
<b>Non-derivative financial instruments</b>							
Trade and other payables	26	1,168,458	1,168,458	-	1,168,458	-	-
Bank overdrafts	27	291,323	291,323	291,323	-	-	-
Bank loans	23	1,518,304	1,737,167	955,247	170,129	362,478	249,313
Lease liabilities	9	32,342	32,342	-	32,342	-	-
<b>Total</b>		<b>3,010,427</b>	<b>3,229,290</b>	<b>1,246,570</b>	<b>1,370,929</b>	<b>362,478</b>	<b>249,313</b>
<b>31 December 2018</b>							
<b>Non-derivative financial instruments</b>							
Trade and other payables	26	1,254,962	1,254,962	-	1,254,962	-	-
Bank overdrafts	27	231,426	231,426	231,426	-	-	-
Bank loans	23	1,544,913	1,720,897	897,471	117,097	427,841	278,488
<b>Total</b>		<b>3,031,301</b>	<b>4,928,182</b>	<b>1,128,897</b>	<b>1,372,059</b>	<b>427,841</b>	<b>278,488</b>

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 30 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 18, 23 and 27) 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:

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Bank overdrafts (refer note 27)	<b>291,323</b>	238,947
Bank loans (refer note 23)	<b>1,518,304</b>	1,544,913
	<b><u>1,809,627</u></b>	<b><u>1,783,860</u></b>

#### 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.

	<b>Effect on profit or loss and equity</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
	<b>AED'000</b>	<b>AED'000</b>
<b>31 December 2019</b>		
Variable rate instruments	<b><u>(18,096)</u></b>	<b><u>18,096</u></b>
<b>31 December 2018</b>		
Variable rate instruments	<b><u>(17,839)</u></b>	<b><u>17,839</u></b>

#### 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.

	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
<b>31 December 2019</b>			
Investments at FVTPL	<b><u>196,164</u></b>	<b><u>1,348</u></b>	<b><u>197,512</u></b>
<b>31 December 2018</b>			
Investments at FVTPL	<b><u>296,796</u></b>	<b><u>1,348</u></b>	<b><u>298,144</u></b>

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)

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### 31 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)

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### 31 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)

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### 31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

#### Judgements (continued)

##### *Determining the lease term of contracts with renewal and termination options – Group as lessee*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for all leases of land with short non-cancellable period (i.e., one year). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on the operations if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

#### 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

#### Estimates and assumptions (continued)

##### *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.

##### *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 2019 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 2019 and 2018 for the investment properties and at 31 December 2019 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 10.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

#### Estimates and assumptions (continued)

##### *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.

##### *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 30.

##### *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.

##### *Leases - Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

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### 31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

#### Estimates and assumptions (continued)

##### *Leases - Estimating the incremental borrowing rate*

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

### 32 COMPARATIVE FIGURES

#### *Correction of an error*

Management restated the comparative information to reflect the effect of the reassessed value of land under property, plant and equipment performed at 31 December 2018 (Note 8), which resulted in a decrease in the previously reported amounts of property, plant and equipment, other comprehensive income, total comprehensive income, and revaluation reserve by AED 177 million.

#### *Reclassifications*

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

	As previously reported AED'000	Reclassification AED'000	As currently reported AED'000
Contract assets	197,835	16,783	214,618
Trade and other receivables	339,133	(47,208)	291,925
Due from related parties	19,277	30,425	49,702



# Union Properties Public Joint Stock Company and its subsidiaries

## Notes to the consolidated financial statements (continued)

### 33 SOCIAL CONTRIBUTIONS

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

Contribution nature	Contribution type	Contribution value
UPTown Mirdiff Mall build an exit with a ramp to be used by People with disabilities are wheel chaired to access Mirdiff Park	Cash	11,204
UPTown Mirdiff Mall organized startup Market between 28 November to 31 December 2019 where local music school students preformed on stage to the public	In-kind	-
UPTown Mirdiff Mall hosted 2 charity kiosks and 32 charity boxes	In-kind	-
Technical Training for Employees	Cash	40,331
UAE Flag Day Event	Cash	23,079
Water Coolers for the public were installed in community	Cash	5,720
Christmas Event	Cash	1,275
Recycling Campaign in TA, MotorCity	Cash	788
Beach Cleaning Campaign	In-kind	-
Community Renovation Works	In-kind	-
World Heart Day	In-kind	-
Breast Cancer Awareness	In-kind	-
Blood Donation Campaign	In-kind	-
Health and Medical Awareness Campaign	In-kind	-
Eye Check-up Campaign	In-kind	-
Doctor's Visit at the Camp	In-kind	-
English Language Coaching	In-kind	-
Train Dubai – Free evening of cycling, dunning and walking	In-kind	-