Damac Properties Dubai Co. PJSC
Dubai - United Arab Emirates

Reports and consolidated financial statements
for the year ended 31 December 2017

Damac Properties Dubai Co. PJSC

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Damac Properties Dubai Co. PJSC

Directors' Report

The Board of Directors has the pleasure in submitting their report together with the audited consolidated financial statements of Damac Properties Dubai Co. PJSC (the "Company") and its subsidiaries (together the "Group") for the financial year ended 31 December 2017. Profit for the year is AED 2,759.8 million (2016: AED 3,694.6 million).

Principal activities

The principal activity of the Group is investment in real estate development companies.

The movement in retained earnings is as follows:

	AED'000	AED'000
Balance at 1 January 2017		5,933,864
Profit for the year		
Revenue	7,454,350	
Cost of sales	(3,820,120)	
Income from deposits and other income	488,065	
Expenses	(1,362,518)	
Total		2,759,777
Transfer to statutory reserve		(168,117)
Cash dividend (note 31)		(1,512,500)
Balance at 31 December 2017		**7,013,024**

On behalf of the Board of Directors



Chairman

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Damac Properties Dubai Co. PJSC
Dubai
United Arab Emirates

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **Damac Properties Dubai Co. PJSC** (the "Company") **and its subsidiaries** (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities requirements in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practising auditors with the UAE Ministry of Economy.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of development properties	
Development properties, which principally comprise the Group's land held for development, projects under development and completed units, are stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell, which is in line with the fair value as at the reporting date). An assessment of the fair value of the development properties is carried out at each reporting date by an external valuation firm. The valuation of the Group's development properties is the key component of the net asset value and underpins the Group's results for the year. The Group's development properties portfolio is not uniform in nature, and therefore a number of different assumptions are made by the Group's external valuers in determining its fair value. The valuation of development property is inherently subjective. The valuer has used a comparable valuation approach for land and completed units and a residual approach for projects under development to arrive at the net realisable value of the development properties portfolio held by the Group at the reporting date. The valuations were carried out by third party valuers (the "Valuer"). They were engaged by the Directors, in accordance with the RICS Valuation - Professional Standards ("RICS").	*Experience of Valuer and relevance of their work* We confirmed that the approaches used in the external valuation were consistent with RICS. We assessed the Valuer's competence and capabilities and read their terms of engagement with the Group. *Data provided to the Valuer* We sample tested data provided to the Valuer by the Group. This data included cost incurred to date, cost to complete, historical sales prices, outstanding receivables to be collected and information relating to unsold inventories. *Assumptions and estimates used by the Valuer* We involved our internal real estate valuation specialists to review the valuations reports for selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of impairment loss. Where we identified estimates and assumptions that are outside the typical ranges used, we discussed these with the Valuer to understand rationale. Based on the outcome of our evaluation we assessed the adequacy of disclosures in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Revenue recognition	
The Group has early adopted International Financial Reporting Standard 15: *'Revenue from contracts with customers'* (IFRS 15) with effect from 1 January 2015. The Group recognises revenue both at a point in time and over a period of time depending on the nature of the contract and the relevant laws and regulations of the jurisdiction in which it has entered the contract with its customers. Revenue recognition on sale of properties, including villas, apartments, commercial units and plots of land, involves significant risks due to the judgment and estimation involved. Audit of judgments around percentage of completion of projects including the costs incurred to date against the total cost of the project and the successful completion of the project in the absence of sale of all units under development was an item requiring significant audit attention in particular consideration of: • ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting the IFRS 15 criteria for revenue recognition over time; • total expected cost of completion of the real estate development; and • likelihood of collection of the remaining sales consideration.	In responding to this area of focus our procedures included the following: Assessment of controls over the revenue recognition assessment and calculations. We tested the design and operating effectiveness of relevant controls which included: • budgeting process of the Group to assess the robustness of the budgets with specific focus on the expected total cost to complete the real estate developments; and • review and approval process around the preparation of percentage of completion calculations. In addition, we also performed the following substantive audit procedures for a sample of contracts: • verified that the Group has correctly recognised revenue as per the terms of the contracts and the relevant jurisdiction that the project is in; • recalculated the revenue and compared it with the calculation performed by the management; • reviewed and challenged the basis of estimation used by management for assessing the total cost to complete for the respective real estate projects are reasonable; and • tested the disclosure included within the consolidated financial statements and ensured it meets the disclosure requirements of IFRS 15.

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INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained the Directors' report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

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

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

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

Responsibilities of the management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and compliance with the applicable provisions of the Company's Articles of Association and the U.A.E. 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 Board of Directors and Audit, Compliance and Risk Committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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INDEPENDENT AUDITOR'S REPORT (continued)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with Group's Audit, Compliance and Risk 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 and 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

As required by the U.A.E. Federal Law No. (2) of 2015, we report that:

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the U.A.E. Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Group's books of account;
- note 11 to the consolidated financial statements of the Group discloses its investments in equity instruments during the financial year ended 31 December 2017;
- note 18 reflects the disclosures relating to material related party transactions and the terms under which they were conducted; and
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the U.A.E. 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 2017.

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
13 February 2018
Dubai
United Arab Emirates

Consolidated statement of financial position as at 31 December 2017

	Notes	2017 AED'000	2016 AED'000
ASSETS			
Property and equipment	6	**150,452**	58,742
Investment properties	7	**197,021**	-
Development properties	8	**9,643,051**	10,245,064
Other financial assets	9	**1,024,757**	1,016,628
Trade and other receivables	10	**6,607,212**	4,804,278
Financial investment	11	**262,673**	185,022
Cash and bank balances	12	**7,458,330**	8,316,048
Total assets		**25,343,496**	24,625,782
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**6,050,000**	6,050,000
Statutory reserve	3.15	**802,313**	634,196
Retained earnings		**7,013,024**	5,933,864
Total equity		**13,865,337**	12,618,060
Liabilities			
Bank borrowings	14	**815,421**	1,162,636
Sukuk certificates	15	**3,937,529**	2,653,598
Advances from customers	16	**3,274,496**	4,196,801
Trade and other payables	17	**3,450,713**	3,994,687
Total liabilities		**11,478,159**	12,007,722
Total equity and liabilities		**25,343,496**	24,625,782

Chairman **Director**

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

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Revenue	19	**7,454,350**	7,156,182
Cost of sales		**(3,820,120)**	(3,159,129)
Gross profit		**3,634,230**	3,997,053
Other operating income	20	**290,583**	594,149
General, administrative and selling expenses	21	**(1,063,498)**	(859,419)
Depreciation		**(26,364)**	(15,265)
Operating profit		**2,834,951**	3,716,518
Other income	22	**56,310**	44,814
Finance income	23	**141,172**	115,878
Finance costs	24	**(272,656)**	(182,563)
Profit for the year		**2,759,777**	3,694,647
Other comprehensive income for the year		**-**	-
Total comprehensive income		**2,759,777**	3,694,647
Earnings per share			
Basic and diluted (AED)	30	**0.46**	0.61

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital AED'000	Statutory reserve AED'000	Group restructuring reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2016	6,050,000	533,643	(4,912,810)	8,160,080	9,830,913
Transfer	-	-	4,912,810	(4,912,810)	-
Total comprehensive income for the year	-	-	-	3,694,647	3,694,647
Transfer to statutory reserve	-	100,553	-	(100,553)	-
Dividend (note 31)	-	-	-	(907,500)	(907,500)
Balance at 31 December 2016	**6,050,000**	**634,196**	-	**5,933,864**	**12,618,060**
Total comprehensive income for the year	-	-	-	2,759,777	2,759,777
Transfer to statutory reserve	-	168,117	-	(168,117)	-
Dividend (note 31)	-	-	-	(1,512,500)	(1,512,500)
Balance at 31 December 2017	**6,050,000**	**802,313**	-	**7,013,024**	**13,865,337**

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

Consolidated statement of cash flows for the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Cash flows from operating activities		
Profit for the year	**2,759,777**	3,694,647
Adjustments for:		
Depreciation of property and equipment and investment properties	**26,364**	15,265
Provision for employees' end-of-service indemnity (note 17)	**18,664**	11,043
Amortisation of issue costs on sukuk certificates (note 15)	**11,393**	5,659
Loss/(gain) on disposal of property and equipment	**226**	(58)
Gain on disposal of a subsidiary (note 22)	**(3,469)**	-
Reversal of impairment on trade receivables (note 21)	**(22,308)**	(44,712)
Finance costs (note 24)	**272,656**	182,563
Finance income (note 23)	**(141,172)**	(115,878)
Operating cash flows before changes in operating assets and liabilities	**2,922,131**	3,748,529
Increase in trade and other receivables	**(1,767,848)**	(965,199)
Decrease/(increase) in development properties	**296,100**	(1,101,294)
Decrease in trade and other payables	**(565,661)**	(329,907)
Decrease in advances from customers	**(922,305)**	(1,336,420)
Employees' end-of-service indemnity paid (note 17)	**(8,725)**	(6,690)
Net cash (used in)/generated from operating activities	**(46,308)**	9,019
Cash flows from investing activities		
Purchases of property and equipment (note 6)	**(20,684)**	(10,152)
Proceeds from disposal of property and equipment	**335**	78
Acquisition of financial investment (note 11)	**(77,651)**	(38,022)
Net cash received on disposal of a subsidiary	**14,410**	-
Increase in other financial assets	**(8,129)**	(227,973)
Increase in deposits with original maturity of greater than three months	**(290,471)**	(224,401)
Interest received	**128,394**	124,943
Net cash used in investing activities	**(253,796)**	(375,527)

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

Consolidated statement of cash flows for the year ended 31 December 2017 (continued)

	2017 AED'000	2016 AED'000
Cash flows from financing activities		
Proceeds from bank borrowings during the year (note 14)	**495,200**	794,474
Repayment of bank borrowings during the year (note 14)	**(905,502)**	(473,184)
Proceeds from issuance of sukuk certificates – net (note 15)	**2,274,897**	-
Redemption and repurchase of sukuk certificates (note 15)	**(1,002,359)**	(91,777)
Dividend paid (note 31)	**(1,512,500)**	(907,500)
Finance costs paid	**(260,908)**	(181,064)
Net cash used in financing activities	**(911,172)**	(859,051)
Net decrease in cash and cash equivalents during the year	**(1,211,276)**	(1,225,559)
Cash and cash equivalents at the beginning of the year (note 12)	**7,087,943**	8,313,502
Cash and cash equivalents at the end of the year (note 12)	**5,876,667**	7,087,943

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

Notes to the consolidated financial statements for the year ended 31 December 2017

1. General information

Damac Properties Dubai Co. PJSC (the "Company" or the "Parent") was incorporated in Dubai on 20 June 1976 as a Public Stock Company and operates in the United Arab Emirates under a trade license issued in Dubai. The Company is listed on the Dubai Financial Market. The address of the Company's registered office is P.O. Box 2195, Dubai, United Arab Emirates ("U.A.E.").

The majority shareholder is Mr. Hussain Sajwani (the "Chairman").

The Parent and its subsidiaries (collectively the "Group") are involved mainly in the development of properties in the Middle East.

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

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to recognition of deferred tax assets for unrealized losses.

- Amendments to IAS 7 *Statement of Cash Flows* that require an entity to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

  The Group has applied these amendments for the first time in the current year. The Group's liabilities arising from financing activities consist of bank borrowings (note 14), sukuk certificates (note 15) and certain other financial liabilities (note 17). A reconciliation between the opening and closing balances of these items is provided in the respective notes. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in aforementioned notes, the application of these amendments has had no impact on the Group's consolidated financial statements.

- Annual improvements to IFRS 2014-2016 cycle covering amendments to IFRS 12 *Disclosure of interests in other entities*.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not yet applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investment in Associates and Joint Ventures*.	1 January 2018

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: ▪ there is consideration that is denominated or priced in a foreign currency; ▪ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ▪ the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: ▪ ***Classification and measurement***: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	1 January 2018

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (continued)	1 January 2018

- ***Impairment***: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- ***Hedge accounting:*** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- ***Derecognition:*** The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

Impact assessment of IFRS 9 *Financial Instruments*

Based on an analysis of the Group's consolidated financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Directors of the Group have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement:

All financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment:

Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade and unbilled receivables as required or permitted by IFRS 9. In relation to the trade and other receivables (note 10), the directors have assessed that there has not been a significant increase in the credit risk of the trade and other receivables from initial recognition to 31 December 2017. Accordingly, the directors expect to recognise lifetime and 12-month expected credit losses for these items respectively.

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will not result in earlier recognition of credit losses for trade and other receivables and will not increase the amount of loss allowance recognised for these items.

Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

The effect of changes in facts and circumstances.

IFRS 16 *Leases* — 1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Impact assessment of IFRS 16 Leases

As at 31 December 2017, the Group has non-cancellable operating lease commitments of AED 248 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of these leases. The new requirement to recognise a right-of-use asset and related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete the review.

In cases where the Group is a lessor (for both operating and finance leases), the Directors of the Group do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. — 1 January 2019

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 17 *Insurance Contracts*.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 and IFRS 16 will be adopted in the Group's consolidated financial statements for the annual periods beginning 1 January 2018 and 1 January 2019 respectively.

2.3 New and revised IFRSs in issue but not yet effective that has been early adopted

IFRS 15 Revenue from contracts with customers was issued in May 2014 and is effective for annual periods on or after 1 January 2018, with early adoption permitted. The Group has reviewed the impact of IFRS 15 on its revenue from operations and has elected to early adopt it with effect from 1 January 2015.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the applicable requirements of the laws in the U.A.E.

3.2 Basis of preparation

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.2 Basis of preparation (continued)

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value at the end of each reporting period. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements of the Group are presented in Arab Emirates Dirhams ("AED") which is the Group's reporting currency. The individual financial statements of Group entities are prepared in respective local currencies, being the currency in the primary economic environment in which these entities operate (the functional currency).

3.3 Basis of consolidation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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

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

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

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

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

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The Company consolidated 100% of the operations, assets and liabilities of the subsidiary listed below (together the "Group"):

Name of the entity	Country of incorporation	Principal activities	Legal and economic interest
Damac Real Estate Development Limited, DIFC ("DRED") *	United Arab Emirates	Holding company	100%

* the holding company includes 81 subsidiaries, the results of which are consolidated in DRED.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue is measured at fair value of the consideration received or receivable.

IFRS 15 *Revenue from contracts with customers* outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers.

Step 1 Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations.

Step 2 Identify the performance obligations in the contract: A performance obligation in a contract is a promise to transfer a good or service to the customer.

Step 3 Determine the transaction price: Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue as and when the Group satisfies a performance obligation.

The Group recognises revenue over time if any 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 Group has an enforceable right to payment for performance obligation completed to date.

The Group has elected to apply the input method. The Group considers that the use of input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of the performance obligation, provides the best reference to revenue actually earned. In applying the input method the Group estimates the cost to complete the projects in order to determine the amount of revenue to be recognised. These estimates include the cost of providing infrastructure, potential claims by contractors and the cost of meeting other contractual obligations to the customers.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.4 Revenue recognition (continued)

Revenue from contracts with customers (continued)

In cases where the Group determines the performance obligations are satisfied at a point in time, revenue is recognised when control over the assets that is subject of the contract is transferred to the customer.

When the Group satisfies a performance obligation by delivering the promised goods and services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

Revenue is measured at the fair value of consideration received or receivable, taking into account the contractually agreed terms of payment excluding taxes and duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or an agent and has concluded that it is acting as a principal in all of its revenue arrangements.

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

Property management fees

Management fees principally relate to property management services provided to owners of the Group's completed developments. Revenue in respect of these fees is recognised in line with the property management contracts and, following the accrual basis, is recognised in the period to which the services relate.

Income from deposits

Income from deposits is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Income from deposits is accrued on a timely basis, by reference to the principal outstanding and at the effective profit or interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing income

The Group's policy for recognition of revenue from operating leases is described under Leases (note 3.11).

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including investment property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses in accordance with the cost model of IAS 40 *Investment property*.

Depreciation is charged so as to write-off the cost of completed investment properties on a straight line basis over the average estimated useful life of 25 years. The useful life and depreciation method of investment properties are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these properties.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.5 Investment properties (continued)

Expenditure incurred to replace a component of an item of investment properties that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written-off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

Investment properties are derecognised upon disposal or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale. Such transfers are made at the carrying value of the properties at the date of transfer.

3.6 Development properties

Properties acquired, constructed or in the course of construction for sale are classified as development properties. These are stated at the lower of cost and net realisable value.

Cost principally includes the cost of the land, infrastructure costs and construction cost and all other costs which are necessary to get the properties ready for sale.

Net realisable value represents the estimated selling price, based on sales relevant in the year, less costs to be incurred in selling the properties.

Borrowing costs that are directly attributable to the construction are included in the cost of the asset.

3.7 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any identified impairment loss. The cost of property and equipment is the purchase consideration together with any incidental costs of acquisition. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

	Years
Building	25
Furniture and fixtures	6
Tools and office equipment	6
Motor vehicles	6

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.7 Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

3.8 Impairment of tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit, typically the development project, to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.9 Provisions (continued)

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

3.10 Provision for employees' end-of-service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of a minimum service period as stipulated in the Labour Laws of the respective countries of operations. The expected costs of these benefits are accrued over the period of employment. Pension and national insurance contributions for the U.A.E. Nationals are made by the Group in accordance with Federal Law No. 7 of 1999 (as amended).

3.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

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

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.12 Foreign currencies

At each reporting date, monetary items denominated in foreign currencies are retranslated at the closing rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.13 Financial instruments

Financial assets and financial liabilities are recognised when an entity from the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: 'loans and receivables' and 'available-for-sale' ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, other financial assets and cash and bank balances (excluding advances and prepayments) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

AFS financial assest are non-derivative financial assets that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

The Group's investments in shares are classified as being available-for-sale and are carried at cost less any identified impairment losses at the end of each reporting period.

AFS equity instruments that do not have an active market and whose fair value cannot be reliably measured are carried at cost less any identified impairment losses at the end of each reporting period.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.13 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interests or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in the consolidated statement of profit or loss and other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

If an available-for-sale financial asset is impaired, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.13 Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in statement of comprehensive income.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in statement of comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.13 Financial instruments (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities

Other financial liabilities include bank borrowings, Sukuk certificates and trade and other payables (excluding provision for employees' end-of-service indemnity). These are subsequently measured at amortised cost applying the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of comprehensive income.

3.14 Taxation

There is no income tax applicable to the Group operations in the U.A.E. In jurisdictions other than the U.A.E., in some cases foreign taxes will be withheld at source on dividends and certain interest received by the Group. Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas subsidiaries that are operating in taxable jurisdictions in accordance with relevant tax regulations in respective countries in which the Group operates. Expense on the statement of profit or loss and other comprehensive income is the expected tax payable on the current year taxable income using prevailing rates at reporting date, and any adjustments to the tax payable in respect of prior years.

3.15 Statutory reserve

As required by the U.A.E. Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at bank with original maturities of less than three months less bank overdrafts, and are used by the Group in the management of its short-term commitments.

3.17 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. An operating segment's operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance. Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property and equipment or development property. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment and development property. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 40, IAS 16 and IAS 2, and in particular, the intended usage of property as determined by the management.

Financial investment

Financial investment represents the Group's 20% equity interest in a related entity (note 11). Management has assessed the impact of IAS 28 *Investments in Associates and Joint Ventures* and has concluded that the Group does not have any significant influence in the form of participation in the financial and operating policy decisions of the investee and hence the investment has not been accounted for as an 'Associate'.

Satisfaction of performance obligations under IFRS 15 Revenue from Contracts with Customers

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the 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 customers, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. In these circumstances the Group recognises revenue over time. Where this is not the case revenue is recognised at a point in time.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgments in applying accounting policies (continued)

Determination of transaction prices

In the process of determining transaction prices in respect of its contracts with customers, the Group assesses impact of any variable consideration in the contract due to discounts, penalties, the existence of any significant financing component or any non-cash consideration. In determining the impact of variable consideration the Group uses the most likely amount method under IFRS 15 whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Key sources of estimation uncertainty

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 discussed below.

Impairment of property and equipment

The Group assesses whether there are any indicators of impairment for property and equipment at each reporting date. Property and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investment properties

The Group assesses whether there are any indicators of impairment for investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts are higher than their fair values.

At 31 December 2017, the Group has estimated the market value of its investment properties on the basis of valuation carried out by an independent external valuation expert. The valuations were determined using the Income Capitalisation Method which includes current and estimated rental values with allowances for void periods, running costs and other operating expenses. Management believes that the highest returns from and the best use of its investment properties is in their current use.

Net realisable value of development properties

The realisable values of development properties were determined by the management based on valuations performed by qualified and independent chartered surveyors and property consultants. These valuations have been prepared in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors (RICS), and are reflective of the economic conditions prevailing as at the reporting date, and changes in the development plan of certain projects.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Net realisable value of development properties (continued)

The valuation method used for 'properties under development' was the residual land valuation method which is based on a discounted cash flow approach that determines the value of the property by deducting the estimated costs to complete the development from the estimated value on completion derived from the sales proceeds of the property. This method entails estimating the gross realisation from the projected sales price of the properties. From this is deducted the outstanding estimated cost to service the property including a developer's margin to arrive at a residual value. The resultant value expressed in net present value terms represents the estimated price that a well-informed rational and efficient developer or investor would pay for the subject property. The method takes into account the time value of money concept where future cash flows are discounted at rates ranging from 12.5% to 20% (2016: 12% to 20%) depending on the nature and scale of the project under development and the timeframe over which it is expected to be developed. The properties are expected to be developed over a period varying between 1 to 5 years.

The valuation method used for 'completed properties' and 'land held for development' was the comparable method which is based on similar transactions in the market adjusted for market risk, legal risk and property risk inherent to each of the properties.

Completion of projects

The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognised. These estimates include the cost of providing infrastructure, potential claims by contractors and the cost of meeting other contractual obligations to the customers.

Provision for impairment on trade receivables

The Group reviews its receivables to assess adequacy of provisions at least on a quarterly basis. The Group's credit risk is primarily attributable to its trade receivables. In determining whether provisions should be recognised in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a reasonable measurable decrease in the estimated future cash flows. Accordingly, a provision is made where there is a potential loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Useful lives of investment properties and property and equipment

The costs of completed investment properties and property and equipment are depreciated over the estimated useful lives of the assets. The estimated useful lives are based on the expected usage of the assets and expected physical wear and tear, which depend on operational factors. Management has not considered any residual value as it is deemed immaterial.

5. Segment analysis

Information reported to the Board for the purpose of the resource allocation and assessment of performance is primarily determined by the nature of the different activities that the Group engages in, rather than the geographical location of these operations. The Group currently comprises a single reportable operating segment, being property development.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

5. Segment analysis (continued)

Geographic information for the Group is split between operations in the U.A.E. "Domestic" and operations in other jurisdictions "International".

	2017 AED'000	2016 AED'000
Revenue		
Domestic	**6,504,225**	6,722,792
International	**950,125**	433,390
	7,454,350	7,156,182

	2017 AED'000	2016 AED'000
Development properties		
Domestic	**8,207,859**	8,438,625
International	**1,435,192**	1,806,439
	9,643,051	10,245,064

6. Property and equipment

	Building AED'000	Furniture and fixtures AED'000	Tools and office equipments AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2016	-	71,496	86,997	4,429	162,922
Additions	-	1,307	8,501	344	10,152
Disposals	-	-	(440)	(190)	(630)
At 31 December 2016	-	72,803	95,058	4,583	172,444
Additions	-	4,087	15,313	1,284	20,684
Transfer from development properties (note 8)	91,858	-	-	-	91,858
Disposals	-	-	(265)	(559)	(824)
At 31 December 2017	91,858	76,890	110,106	5,308	284,162
Accumulated depreciation					
At 1 January 2016	-	44,288	52,463	2,296	99,047
Charge for the year	-	3,313	11,746	206	15,265
Disposals	-	-	(420)	(190)	(610)
At 31 December 2016	-	47,601	63,789	2,312	113,702
Charge for the year	3,103	12,073	3,925	1,170	20,271
Disposals	-	-	(170)	(93)	(263)
At 31 December 2017	3,103	59,674	67,544	3,389	133,710

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

6. Property and equipment (continued)

	Building AED'000	Furniture and fixtures AED'000	Tools and office equipments AED'000	Motor vehicles AED'000	Total AED'000
Carrying value					
As at 31 December 2017	**88,755**	**17,216**	**42,562**	**1,919**	**150,452**
As at 31 December 2016	-	25,202	31,269	2,271	58,742

7. Investment properties

Investment properties represent completed properties held at cost less accumulated depreciation and impairment losses under the cost model in accordance with IFRSs.

Movement during the year is as follows:

	2017 AED'000	2016 AED'000
Cost		
Transfer from development properties (note 8)	**203,114**	-
Depreciation	**(6,093)**	-
Balance at the end of the year	**197,021**	-

Fair value of the investment properties were determined under the Income Capitalisation Method which involves the capitalisation of current and estimated rental values at an equivalent yield of approximately 7.5% and vacancy rate of 8% with allowances for void periods, running costs and other operating expenses. The valuation was performed in accordance with RICS Appraisals and Valuation Standards as adapted for Dubai and U.A.E. Laws and Regulations, and is reflective of the economic conditions prevailing as at the reporting date.

At 31 December 2017, the fair value of the completed investment properties and related land was AED 301 million on the basis of a valuation carried out by an independent external valuation expert. The investment properties are located in the U.A.E., and are categorised under Level 3 in the fair value hierarchy.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

8. Development properties

Development properties represent development and construction costs incurred on properties being developed for sale. Movement during the year is as follows:

	2017 AED'000	2016 AED'000
Cost		
Balance at the beginning of the year	**10,245,064**	9,143,770
Additions during the year	**3,513,108**	4,254,707
Transfer to cost of sales during the year	**(3,809,208)**	(3,153,413)
Transfer to investment properties (note 7)	**(203,114)**	-
Transfer to property and equipment (note 6)	**(91,858)**	-
Disposal of a subsidiary	**(10,941)**	-
Balance at the end of the year	**9,643,051**	10,245,064

Impairment of development properties

At 31 December 2017, the Group reviewed the carrying value of its land held for future development, properties under development and completed properties by assessing the net realisable value of each project. The key judgment in this review was estimating the realisable value of a project, which is determined by forecasting sales rates, expected sales prices and estimated costs to complete. In support of the review work performed, the Group engaged an independent external valuation expert to determine the market value for each of the projects including the expected sales prices.

This review did not result in impairment during the current year, reflecting stable macroeconomic conditions and expected future sales prices.

For impairment losses recognised in prior periods, the Group has assessed, based on internal and external sources of information, and concluded that the carrying value of the related development property is appropriately stated as per IAS 2.

Assets held as development properties

The development properties balance includes land held for future development, properties under development and completed properties held in inventory. The balances above are split into these categories as follows:

	2017 AED'000	2016 AED'000
Land held for future development	**534,663**	1,221,220
Properties under development	**7,626,907**	7,960,923
Completed properties	**1,481,481**	1,062,921
	9,643,051	10,245,064

No borrowing costs have been capitalised to development properties.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

9. Other financial assets

	2017 AED'000	2016 AED'000
Escrow retention accounts	**1,009,668**	1,003,389
Margin deposits	**8,699**	11,155
Other	**6,390**	2,084
	1,024,757	1,016,628

In accordance with applicable laws, the Group holds funds under escrow in Real Estate Regularity Authority ("RERA") authorised bank accounts. These funds must be held in these escrow accounts for a fixed period of one year after completion of the relevant development properties, at which point they are released to the Group. These funds earn profit or interest at relevant commercial rates.

At 31 December 2017, margin deposits are held by banks under lien against credit facilities issued to the Group and earn profit or interest at relevant commercial rates.

At the reporting date, an amount of AED 586 million (2016: AED 513 million) is held with Islamic banks and the balance is held with conventional banks.

10. Trade and other receivables

	2017 AED'000	2016 AED'000
Unbilled receivables *(i)*	**5,118,024**	3,287,357
Trade receivables *(ii)*	**983,403**	823,514
Provision for impairment on trade receivables *(iii)*	**(131,866)**	(154,174)
	5,969,561	3,956,697
Advances and deposits	**573,947**	766,018
Other receivables and prepayments	**63,704**	81,563
	6,607,212	4,804,278

(i) Unbilled receivables relate to the Group's right to receive consideration for work completed but not billed at the reporting date. These are transferred to trade receivables when invoiced.

Movement in unbilled receivables during the year is as follows:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**3,287,357**	2,709,260
Increase due to project progress	**3,723,117**	2,396,952
Transfer to trade receivables	**(1,892,450)**	(1,818,855)
Balance at the end of the year	**5,118,024**	3,287,357

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

10. Trade and other receivables (continued)

(ii) Trade receivables represent amounts due from customers. Customers are allowed 30 days from each invoice date to settle outstanding dues.

(iii) Movement in the provision for impairment on trade receivables during the year is as follows:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**154,174**	198,886
Net reversal of impairment during the year (note 21)	**(22,308)**	(44,712)
Balance at the end of the year	**131,866**	154,174

The Group has assessed and provided for doubtful trade receivables at the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of unbilled and trade receivables that are not impaired is as follows:

	Neither past due nor impaired AED'000	**Past due but not impaired**				
		1 – 60 days AED'000	**61 – 180 days AED'000**	**181 – 270 days AED'000**	**Above 270 days AED'000**	**Total AED'000**
31 December 2017	**5,118,024**	**224,214**	**230,333**	**138,310**	**258,680**	**5,969,561**
31 December 2016	3,287,357	228,293	129,960	72,712	238,375	3,956,697

Ageing of impaired trade receivables is as follows:

	1 – 60 days AED'000	**61 – 180 days AED'000**	**181 – 270 days AED'000**	**Above 270 days AED'000**	**Total AED'000**
31 December 2017	**804**	**1,067**	**15,970**	**114,025**	**131,866**
31 December 2016	7,641	9,691	29,088	107,754	154,174

11. Financial investment

During the year, the Group increased its investment in Damac International Limited, a related entity whose principal activity is property development, from AED 185 million to AED 263 million (2016: from AED 147 million to AED 185 million) which represents a 20% (2016: 20%) equity interest in the related entity.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

12. Cash and bank balances

	2017 AED'000	2016 AED'000
Cash on hand	**835**	1,109
Cash held in escrow	**5,979,509**	7,002,061
Bank balances	**59,551**	83,501
Fixed deposits	**1,418,435**	1,229,377
Cash and bank balances	**7,458,330**	8,316,048
Fixed deposits with an original maturity of greater than three months	**(1,417,819)**	(1,127,348)
Bank overdrafts (note 14)	**(163,844)**	(100,757)
Cash and cash equivalents	**5,876,667**	7,087,943

Cash held in escrow represents cash received from customers which is held with banks authorised by the Real Estate Regularity Authority ("RERA"). Use of this cash is restricted to the specific development properties to which the cash receipts relate and, hence is considered as cash and cash equivalents.

Fixed deposits are financial assets held by banks with maturity period of more than three months from the date of placement. As at 31 December 2017, the fixed deposits earned interest at rates ranging from 1% to 6% (2016: 1% to 6%) per annum.

At the reporting date, fixed deposits and bank balances of AED 195 million (2016: AED 193 million) are held by banks under lien against credit facilities issued to the Group.

At the reporting date, an amount of AED 4,585 million (2016: AED 4,422 million) is held with Islamic banks and the balance is held with conventional banks.

13. Share capital

	2017 AED'000	2016 AED'000
Issued, subscribed and fully paid shares of AED 1 each	**6,050,000**	6,050,000

14. Bank borrowings

	2017 AED'000	2016 AED'000
Bank facilities	**651,577**	1,061,879
Overdrafts (note 12)	**163,844**	100,757
	815,421	1,162,636

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

14. Bank borrowings (continued)

a) At the reporting date, an amount of AED 222 million (2016: AED 309 million) is outstanding with Islamic banks and the balance with conventional banks.

b) Details of the Group's bank facilities are as follows:

Islamic banks and financial institutions

The Group has the following Sharia compliant financing facility with an Islamic financial institution:

- AED 250 million Ijarah facility with a commercial bank at a rate of 3 months EIBOR plus 3.25% per annum, repayable by 2020. Out of this AED 28 million was repaid as at 31 December 2017.

Conventional banks and financial institutions

The Group has the following unsecured interest-bearing loans and financing facilities with conventional banks and financial institutions:

- AED 183 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 57 million was repaid as at 31 December 2017.
- AED 63 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018.
- AED 433 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2018. Out of this, AED 354 million was repaid as at 31 December 2017.
- AED 50 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 42 million was repaid as at 31 December 2017.
- AED 165 million term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.25% per annum, repayable by 2019. Out of this, AED 41 million was repaid as at 31 December 2017.
- AED 67 million term loan with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable by 2020. Out of this, AED 38 million was repaid as at 31 December 2017.

c) As at 31 December 2017, the Group had arranged for bank facilities amounting to AED 1,833 million (2016: AED 1,761 million) in the form of letters of credit and guarantees out of which AED 896 million (2016: AED 524 million) remained unutilised as at the reporting date.

d) As at 31 December 2017 and 2016, the outstanding loan amounts are subject to commercial interest and profit rates.

e) The non-funded facilities are mainly secured by mortgages over certain properties owned by the Group, corporate guarantees of the Company and pledges over bank accounts and deposits.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

14. Bank borrowings (continued)

f) Repayment profile of the Group's bank borrowings at the reporting date is as follows:

	2017 AED'000	2016 AED'000
On demand or within one year	**542,577**	918,207
In the second and third years	**272,844**	244,429
	815,421	1,162,636

g) As at the reporting date, the Group was in compliance with all required covenants under the above borrowings and facilities.

Reconciliation of liabilities arising from financing activities

	1 January 2017 AED'000	Cash flows *(i)* AED'000	Other changes AED'000	31 December 2017 AED'000
Bank facilities	1,061,879	(410,302)	-	651,577

(i) The cash flows from bank facilities represent net repayment of borrowings in the statement of cash flows.

15. Sukuk certificates

	2017 AED'000	2016 AED'000
Sukuk certificates	**3,958,989**	2,664,473
Unamortised issue costs	**(21,460)**	(10,875)
Carrying amount	**3,937,529**	2,653,598

Movement in unamortised issue costs during the year is as follows:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**10,875**	16,534
Incurred during the year	**21,978**	-
Amortised during the year	**(11,393)**	(5,659)
Unamortised issue costs at the end of the year	**21,460**	10,875

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

15. Sukuk certificates (continued)

- On 9 April 2014, the Group issued US$ 650 million (AED 2,389 million) Sukuk Trust Certificates (the "Certificates") maturing in 2019. Alpha Star Holding Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the Issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. Holders of the Certificates from time to time (the "Certificateholders") have the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates.

  The Certificateholders are paid returns at the rate of 4.97% per annum.

  On 20 April 2017, the Group repurchased sukuk certificates worth US$ 197.7 million (AED 727 million) at a premium.

- On 30 March 2017, the Group issued US$ 125 million (AED 459 million) Sukuk Trust Certificates (the "Certificates") maturing in 2018. Alpha Star Holding IV Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The sukuk was fully subscribed by a U.A.E. financial institution. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. The Certificateholder from time to time has the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificate.

  The Certificateholder is paid return at the rate of 3 months LIBOR plus 3.25% per annum.

- On 21 March 2017, the Group redeemed US$ 75 million (AED 276 million) of sukuk certificates on maturity.
- On 20 April 2017, the Group issued US$ 500 million (AED 1,838 million) Sukuk Trust Certificates (the "Certificates") maturing in 2022. Alpha Star Holding III Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. Holders of the Certificates from time to time (the "Certificateholders") have the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates.

  The Certificateholders are paid returns at the rate of 6.25% per annum.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

15. Sukuk certificates (continued)

The repayment profile of sukuk certificates is as follows:

	2017 AED'000	2016 AED'000
Amount due for settlement within 12 months	**455,618**	275,723
Amount due for settlement after 12 months	**3,481,911**	2,377,875
	3,937,529	2,653,598

Reconciliation of liabilities arising from financing activities

	1 January 2017 AED'000	Cash flows *(i)* AED'000	Other changes *(ii)* AED'000	31 December 2017 AED'000
Sukuk certificates	2,653,598	1,272,538	11,393	3,937,529

(i) The cash flows from sukuk certificates represent proceeds from the issuance of sukuk certificates net of repurchases, redemptions and issue cost payments in the statement of cash flows.

(ii) Other changes represent issue costs amortised to the consolidated statement of profit or loss and other comprehensive income during the year.

16. Advances from customers

Advances from customers represent payments received from customers for sale of properties for which revenue has not yet been recognised in line with the revenue recognition policy consistent with IFRS 15.

Movement during the year is as follows:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**4,196,801**	5,533,221
Amounts billed during the year	**6,792,480**	6,416,592
Revenue recognised during the year	**(7,433,574)**	(7,168,472)
Other income recognised during the year (note 20)	**(281,211)**	(584,540)
Balance at the end of the year	**3,274,496**	4,196,801

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

17. Trade and other payables

	2017 AED'000	2016 AED'000
Accruals	**1,077,961**	1,264,091
Retentions payable *(i)*	**872,611**	807,745
Deferred consideration payable for land	**799,597**	1,238,081
Other payables *(ii)*	**652,982**	647,147
Provision for employees' end-of-service indemnity *(iii)*	**47,562**	37,623
	3,450,713	3,994,687

(i) Retentions comprise amounts due to contractors which are held for one year after the completion of a project until the defects liability period has passed, and are typically between 5% and 15% of work done.

(ii) Reconciliation of liabilities arising from financing activities

	1 January 2017 *(a)* AED'000	Cash flows *(b)* AED'000	Other changes *(c)* AED'000	31 December 2017 *(a)* AED'000
Other liabilities	34,040	(260,908)	272,656	45,788

(a) Balance at the beginning and the end of the year represent provision for finance costs that are included under other payables.
(b) The cash flows represent finance costs paid during the year in the statement of cash flows.
(c) Other changes represent finance costs charged to the consolidated statement of profit or loss and other comprehensive income during the year.

(iii) Movement in provision for employees' end-of-service indemnity during the year is as follows:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**37,623**	33,270
Charge for the year	**18,664**	11,043
Payments made during the year	**(8,725)**	(6,690)
Balance at the end of the year	**47,562**	37,623

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

18. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24: *Related Party Disclosures*. Related parties comprise entities under common ownership and/or common management and control, their partners and key management personnel. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges which are substantially the same terms as those prevailing at the same time for comparable transactions with the third parties. Pricing policies and terms of all transactions are approved by the management.

Nature of significant related party transactions and amounts involved are as follows:

	2017 AED'000	2016 AED'000
Entities under the control of Chairman		
Investment in Damac International Limited (note 11) *(i)*	**(77,651)**	(38,022)
Support services fees (note 22) *(ii)*	**8,535**	7,415
Construction works executed	**-**	(100,728)

(i) Investment in Damac International Limited

During the year, the Group increased its investment in Damac International Limited by AED 78 million (2016: AED 38 million), a related entity under the control of the Chairman (note 11).

(ii) Support services fees

During the year the Group received AED 9 million (2016: AED 7 million) towards support services rendered to Damac International Limited and Dico Investments Co. LLC, both related entities under the control of the Chairman (note 22).

Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2017 AED'000	2016 AED'000
Salaries and other short-term employee benefits	**13,479**	15,478
Other long term benefits	**651**	958
	14,130	16,436

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

19. Revenue

	2017 AED'000	2016 AED'000
Property development	**5,371,327**	5,064,132
Sale of land	**2,083,023**	2,092,050
	7,454,350	7,156,182

As at reporting date, the aggregate amount of transaction price allocated to unsatisfied, or partially satisfied, performance obligations is AED 13,228 million. The Group will recognise this revenue as project progress is achieved, which is expected to occur over the next 1 to 4 years.

20. Other operating income

	2017 AED'000	2016 AED'000
Income from cancellation of units (note 16)	**281,211**	584,540
Penalties from overdue customers	**8,830**	8,499
Unit registration and transfer fees	**542**	1,110
	290,583	594,149

21. General, administrative and selling expenses

	2017 AED'000	2016 AED'000
Employees' salaries and benefits	**470,886**	442,006
Advertising and sales promotion	**185,502**	134,369
Brokerage and commission	**184,606**	109,230
Rent and license fees	**48,641**	58,277
Repairs and maintenance	**41,806**	35,476
Legal and professional	**36,803**	26,646
Bank charges	**26,852**	21,135
Travel and conveyance	**18,999**	15,979
Insurance	**13,140**	11,109
Tax expense	**12,696**	21,095
Communication	**10,847**	9,862
Reversal of impairment on trade receivables (note 10)	**(22,308)**	(44,712)
Others	**35,028**	18,947
	1,063,498	859,419

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

22. Other income

	2017 AED'000	2016 AED'000
Property management fees	**25,648**	23,053
Support services fees (note 18)	**8,535**	7,415
Gain on disposal of a subsidiary	**3,469**	-
Other	**18,658**	14,346
	56,310	44,814

23. Finance income

	2017 AED'000	2016 AED'000
Islamic banks and financial institutions	**72,024**	43,863
Conventional banks and financial institutions	**69,148**	72,015
	141,172	115,878

24. Finance costs

	2017 AED'000	2016 AED'000
Islamic banks and financial institutions	**214,621**	152,161
Conventional banks and financial institutions	**58,035**	30,402
	272,656	182,563

25. Contingent liabilities

	2017 AED'000	2016 AED'000
Bank guarantees	**937,251**	1,236,580

The Group has contingent liabilities in respect of bank guarantees issued in the normal course of business from which it is anticipated that no material liabilities will arise as at 31 December 2017.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

26. Commitments

Commitments for the acquisition of services for the development and construction of assets classified under developments in progress:

	2017 AED'000	2016 AED'000
Contracted for	**5,407,712**	6,210,538

Operating lease commitments – Group as a lessee

The Group has entered into operating lease agreements for properties on which the future minimum rentals payable are as follows:

	2017 AED'000	2016 AED'000
Within one year	**8,055**	8,055
Between two and five years	**34,635**	33,829
More than five years	**204,997**	213,857
Total	**247,687**	255,741

Operating lease commitments – Group as a lessor

The Group has entered into leases on its investment property portfolio whose contracted periods do not exceed one year.

27. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

(b) Categories of financial instruments

	2017 AED'000	2016 AED'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**14,478,266**	13,302,213
Financial investments	**262,673**	185,022
	14,740,939	13,487,235
Financial liabilities		
At amortised cost	**8,156,101**	7,773,298

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

27. Financial instruments (continued)

(c) Fair value of financial instruments

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. Differences can therefore arise between book value under historical cost method and fair value estimates.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

28. Financial risk management

Management reviews overall financial risk covering specific areas, such as market risk, credit risk, liquidity risk and investing excess cash.

The Group does not hold or issue derivative financial instruments.

The Group's profile with respect to exposure to financial risks identified below continues to be consistent.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as currency risk and interest rate risk, which will affect the Group's income or the value of its holdings of financial instruments. Financial instruments affected by market risk include interest-bearing loans and borrowings, deposits and financial assets at fair value through other comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not hold or issue derivative financial instruments.

(b) Interest rate risk management

The Group is exposed to interest rate risk as the Group deposits/borrows funds at floating interest rates. The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date. The analysis is prepared assuming the amount of assets/liabilities outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by AED 5.8 million (2016: AED 5.4 million). This is mainly attributable to the Group's exposure to variable rate financial instruments.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

28. Financial risk management (continued)

(c) Foreign currency risk management

Foreign currency transactions and balances of the Group are denominated in US Dollar or currencies pegged to the US Dollar (AED, Saudi Riyal, Bahraini Dinar, Qatari Riyal, Iraqi Dinar, Jordanian Dinar and Lebanese Pound). As a result foreign currency transactions and balances do not represent significant currency risk to the Group.

(d) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Ongoing credit evaluation is performed on the financial condition of trade receivables.

The carrying amount of financial assets, excluding financial investments, recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

(e) Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below are the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table consists only of principal cash flows:

	Weighted average effective interest rate %	Less than 1 year AED'000	1 – 2 years AED'000	3 – 5 years AED'000	Total AED'000
31 December 2017:					
Non-interest bearing	-	3,043,151	360,000	-	**3,403,151**
Fixed interest rate instruments	5.64	-	1,662,114	1,837,500	**3,499,614**
Variable interest rate instruments	4.82	1,001,952	50,605	222,239	**1,274,796**
		4,045,103	2,072,719	2,059,739	**8,177,561**
31 December 2016:					
Non-interest bearing	-	2,970,096	911,968	75,000	**3,957,064**
Fixed interest rate instruments	4.89	275,723	-	2,388,750	**2,664,473**
Variable interest rate instruments	4.91	918,207	244,429	-	**1,162,636**
		4,164,026	1,156,397	2,463,750	**7,784,173**

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

28. Financial risk management (continued)

(e) Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets except where the Group anticipates that the cash flow will occur in a different period:

	Weighted average effective interest rate %	Less than 1 year AED'000	1 – 2 years AED'000	3 – 5 years AED'000	Total AED'000
31 December 2017:					
Non-interest bearing	-	12,035,074	-	-	**12,035,074**
Variable interest rate instruments	2.19	2,443,192	-	-	**2,443,192**
		14,478,266	-	-	**14,478,266**
31 December 2016:					
Non-interest bearing	-	11,056,208	-	-	**11,056,208**
Variable interest rate instruments	1.82	2,246,005	-	-	**2,246,005**
		13,302,213	-	-	**13,302,213**

29. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 14 and note 15, cash and cash equivalents and equity attributable to owners of the Group, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

30. Earnings per share

The basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue during the year. There were no instruments or any other items which could cause a dilutive effect on the earnings per share calculation.

	2017	2015
Profit for the year (AED'000)	**2,759,777**	3,694,647
Weighted average number of ordinary shares ('000)	**6,050,000**	6,050,000
Earnings per ordinary share – Basic and diluted (AED)	**0.46**	0.61

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

31. Dividend

On 16 April 2017 the Company held its annual general meeting which, among other things, approved a cash dividend equal to AED 0.25 per share amounting to AED 1,512.5 million. The dividend was paid on 7 May 2017.

On 19 April 2016 the Company held its annual general meeting which, among other things, approved a cash dividend equal to AED 0.15 per share amounting to AED 907.5 million. The dividend was paid on 15 May 2016.

32. Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 was approved by the Board and authorised for issue on 13 February 2018.