**Damac Properties Dubai Co. PJSC**
**Dubai – United Arab Emirates**

**Reports and consolidated financial statements**
**for the year ended 31 December 2018**

**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 2018. Profit for the year is AED 1,152 million (2017: AED 2,760 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 2018** | | 7,013,024 |
| Profit for the year | | |
| Revenue | 6,132,675 | |
| Cost of sales | (4,011,638) | |
| Income from deposits and other income | 337,143 | |
| Expenses | (1,306,286) | |
| Total | | 1,151,894 |
| Transfer to statutory reserve | | (101,184) |
| Cash dividend (note 30) | | (907,500) |
| **Balance at 31 December 2018** | | **7,156,234** |

**On behalf of the Board of Directors**

**Chairman**

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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 2018 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 2018, 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 year. 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.

Cont'd...

Akbar Ahmad (1141), Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Jallad (1164), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem M. Dajani (726), Obada Alkowatly (1056), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing 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, as disclosed in note 4 and 8 to the consolidated financial statements.<br><br>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.<br><br>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.<br><br>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").<br><br>The fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement warrants specific audit focus on this area. | *Experience of Valuer and relevance of their work*<br><br>We confirmed that the approaches used in the external valuation were consistent with RICS.<br><br>We assessed the Valuer's competence and capabilities and read their terms of engagement with the Group.<br><br>*Data provided to the Valuer*<br><br>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.<br><br>*Assumptions and estimates used by the Valuer*<br><br>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.<br><br>Where we identified estimates and assumptions that are outside the typical ranges used, we discussed these with the Valuer to understand the rationale.<br><br>Based on the outcome of our evaluation we assessed the adequacy of disclosures in the consolidated financial statements. |

## INDEPENDENT AUDITOR'S REPORT (continued)

*Key audit matters (continued)*

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **Revenue recognition** | |
| 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, as disclosed in note 3.4 to the consolidated financial statements.<br><br>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:<br><br>▪ ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting International Financial Reporting Standard 15: *'Revenue from contracts with customers'* criteria for revenue recognition over time;<br><br>▪ total expected cost of completion of the real estate development;<br><br>▪ likelihood of collection of the remaining sales consideration. | In responding to this area of focus our procedures included the following:<br><br>Assessment of controls over the revenue recognition assessment and calculations. We tested the design and operating effectiveness of relevant controls which included;<br><br>▪ 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.<br><br>▪ review and approval process around the preparation of percentage of completion calculations<br><br>In addition, we also performed the following substantive audit procedures for a sample of contracts;<br><br>▪ verified that the Group has correctly recognised revenue as per the terms of the contracts and the relevant jurisdiction that the project is in;<br><br>▪ recalculated the revenue and compared it with the calculation performed by the management;<br><br>▪ 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.<br><br>▪ tested the disclosure included within the consolidated financial statements and ensured it meets the disclosure requirements of IFRS 15. |

## 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 thereon.

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.

## 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 year 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.

Deloitte.

## 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 2018;
- 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 2018 any of the applicable provisions of the U.A.E. Federal Law No. (2) of 2015 or, in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

**Deloitte & Touche (M.E.)**



Akbar Ahmad
Registration No. 1141
27 March 2019
Dubai
United Arab Emirates

## Consolidated statement of financial position as at 31 December 2018

| | Notes | 2018 AED'000 | 2017 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property and equipment | 6 | 140,749 | 150,452 |
| Investment properties | 7 | 188,896 | 197,021 |
| Development properties | 8 | 9,214,522 | 9,643,051 |
| Other financial assets | 9 | 1,055,267 | 1,024,757 |
| Trade and other receivables | 10 | 8,120,233 | 6,607,212 |
| Financial investment | 11 | 283,073 | 262,673 |
| Cash and bank balances | 12 | 6,173,522 | 7,458,330 |
| **Total assets** | | 25,176,262 | 25,343,496 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 13 | 6,050,000 | 6,050,000 |
| Statutory reserve | 3.16 | 903,497 | 802,313 |
| Retained earnings | | 7,156,234 | 7,013,024 |
| **Total equity** | | 14,109,731 | 13,865,337 |
| **Liabilities** | | | |
| Bank borrowings | 14 | 667,213 | 815,421 |
| Sukuk certificates | 15 | 4,280,434 | 3,937,529 |
| Advances from customers | 16 | 2,617,811 | 3,274,496 |
| Trade and other payables | 17 | 3,501,073 | 3,450,713 |
| **Total liabilities** | | 11,066,531 | 11,478,159 |
| **Total equity and liabilities** | | 25,176,262 | 25,343,496 |

**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 2018

| | Notes | 2018 AED'000 | 2017 AED'000 |
|---|---|---|---|
| Revenue | | **6,132,675** | 7,454,350 |
| Cost of sales | | **(4,011,638)** | (3,820,120) |
| **Gross profit** | | **2,121,037** | 3,634,230 |
| Other operating income | **19** | **94,655** | 290,583 |
| General, administrative and selling expenses | **20** | **(898,440)** | (1,063,498) |
| Depreciation | | **(28,082)** | (26,364) |
| Provision for impairment on development properties | **8** | **(54,146)** | - |
| **Operating profit** | | **1,235,024** | 2,834,951 |
| Other income | **21** | **80,195** | 56,310 |
| Finance income | **22** | **162,293** | 141,172 |
| Finance costs | **23** | **(325,618)** | (272,656) |
| **Profit for the year** | | **1,151,894** | 2,759,777 |
| Other comprehensive income for the year | | **-** | - |
| **Total comprehensive income** | | **1,151,894** | 2,759,777 |
| **Earnings per share** | | | |
| Basic and diluted (AED) | **29** | **0.19** | 0.46 |

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

## Consolidated statement of changes in equity for the year ended 31 December 2018

| | Share capital AED'000 | Statutory reserve AED'000 | Retained earnings AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance at 1 January 2017 | 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 30) | - | - | (1,512,500) | (1,512,500) |
| **Balance at 31 December 2017** | **6,050,000** | **802,313** | **7,013,024** | **13,865,337** |
| Total comprehensive income for the year | - | - | 1,151,894 | 1,151,894 |
| Transfer to statutory reserve | - | 101,184 | (101,184) | - |
| Dividend (note 30) | - | - | (907,500) | (907,500) |
| **Balance at 31 December 2018** | **6,050,000** | **903,497** | **7,156,234** | **14,109,731** |

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

## Consolidated statement of cash flows for the year ended 31 December 2018

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **1,151,894** | 2,759,777 |
| *Adjustments for:* | | |
| Depreciation on property and equipment and investment properties | **28,082** | 26,364 |
| Provision for employees' end-of-service indemnity (note 17) | **13,921** | 18,664 |
| Amortisation of issue costs on sukuk certificates (note 15) | **12,736** | 11,393 |
| Loss on disposal of property and equipment | **-** | 226 |
| Gain on disposal of a subsidiary (note 21) | **(2,936)** | (3,469) |
| Provision for impairment on development properties (note 8) | **54,146** | - |
| Reversal of impairment on trade receivables (note 20) | **(107,758)** | (22,308) |
| Finance costs (note 23) | **325,618** | 272,656 |
| Finance income (note 22) | **(162,293)** | (141,172) |
| **Operating cash flows before changes in operating assets and liabilities** | **1,313,410** | 2,922,131 |
| Increase in trade and other receivables | **(1,412,712)** | (1,767,848) |
| Decrease in development properties | **359,672** | 296,100 |
| Increase/(decrease) in trade and other payables | **35,409** | (565,661) |
| Decrease in advances from customers | **(656,685)** | (922,305) |
| Employee end-of-service indemnity paid (note 17) | **(11,763)** | (8,725) |
| **Net cash used in operating activities** | **(372,669)** | (46,308) |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment (note 6) | **(10,965)** | (20,684) |
| Proceeds from disposal of property and equipment | **-** | 335 |
| Acquisition of financial investments (note 11) | **(20,400)** | (77,651) |
| Net cash received on disposal of a subsidiary | **12,845** | 14,410 |
| Increase in other financial assets | **(30,510)** | (8,129) |
| Decrease/(increase) in deposits with an original maturity greater than three months | **787,186** | (290,471) |
| Interest received | **175,255** | 128,394 |
| **Net cash generated from/(used in) investing activities** | **913,411** | (253,796) |

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

## Consolidated statement of cash flows for the year ended 31 December 2018 (continued)

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from bank borrowings during the year (note 14) | **422,229** | 495,200 |
| Repayment of bank borrowings during the year (note 14) | **(406,593)** | (905,502) |
| Proceeds from the issuance of sukuk certificates – net (note 15) | **1,457,138** | 2,274,897 |
| Redemption and repurchase of sukuk certificates (note 15) | **(1,126,969)** | (1,002,359) |
| Dividend paid (note 30) | **(907,500)** | (1,512,500) |
| Finance costs paid | **(312,825)** | (260,908) |
| **Net cash used in financing activities** | **(874,520)** | (911,172) |
| **Net decrease in cash and cash equivalents** | **(333,778)** | (1,211,276) |
| Cash and cash equivalents at the beginning of the year (note 12) | **5,876,667** | 7,087,943 |
| **Cash and cash equivalents at the end of the year (note 12)** | **5,542,889** | 5,876,667 |

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

## Notes to the consolidated financial statements for the year ended 31 December 2018

### 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 effective for accounting periods beginning on or after 1 January 2018

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

The Group has applied, for the first time, IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed under respective notes in these consolidated financial statements.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.

- Amendments to IAS 40 *Investment Properties*. Amendment to para 57 states 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.

- Annual improvements to IFRSs 2014-2016 cycle to remove short-term exemptions and clarifying certain fair value measurements.

- Amendments to IAS 28 *Investment in Associates and Joint Ventures* providing clarification on measuring investees at fair value through profit or loss.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

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

### 2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018 (continued)

- 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.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

**Impact of initial application of IFRS 9 *Financial Instruments***

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9 that allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

*Classification and measurement of financial assets*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. However, in accordance with transition provisions under IFRS 9, the Group has elected not to restate the comparative periods.

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.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

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

### 2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018 (continued)

**Impact of initial application of IFRS 9 *Financial Instruments (continued)***

*Impairment*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets irrespective of the occurrence of a credit event.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses at an amount equal to lifetime ECL on:

- Trade and other receivables (excluding prepayments and advances);
- Other financial assets; and
- Short term deposits with original maturities greater than three months.

*Hedge accounting*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

As at reporting date, the Group does not have financial assets or financial liabilities under hedging relationship.

*Derecognition*

The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the management has assessed that trade and other receivables, other financial assets and cash and cash equivalents are subject to impairment provisions of IFRS 9.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

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

### 2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018 (continued)

**Impact of initial application of IFRS 9 *Financial Instruments (continued)***

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

| | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 AED'000 | New carrying amount under IFRS 9 AED'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Other financial assets | Loans and receivables | Amortised cost | 1,024,757 | 1,024,757 |
| Trade and other receivables | Loans and receivables | Amortised cost | 5,995,179 | 5,995,179 |
| Cash and bank balances | Loans and receivables | Amortised cost | 7,458,330 | 7,458,330 |
| Financial liabilities | | | | |
| Bank borrowings | Amortised cost | Amortised cost | 815,421 | 815,421 |
| Sukuk certificates | Amortised cost | Amortised cost | 3,958,989 | 3,958,989 |
| Trade and other payables | Amortised cost | Amortised cost | 3,403,151 | 3,403,151 |

### 2.2 New and revised IFRSs in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRIC 23 *Uncertainty over Income Tax Treatments*<br>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:<br>▪ Whether tax treatments should be considered collectively;<br>▪ Assumptions for taxation authorities' examinations;<br>▪ The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and<br>▪ The effect of changes in facts and circumstances. | 1 January 2019 |
| 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 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 2018 (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 (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 *Leases*: 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. | 1 January 2019 |
| 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 |
| Amendment to IAS 19 *Employee Benefits* relating to amendment, curtailment or settlement of a defined benefit plan | 1 January 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework | 1 January 2020 |
| Amendment to IFRS 3 *Business Combinations* relating to definition of a business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 relating to definition of material | 1 January 2020 |
| IFRS 17 *Insurance Contracts*: requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. | 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 an 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 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 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.

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).

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 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:

- 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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.3 Basis of consolidation (continued)

*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.

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 80 subsidiaries, the results of which are consolidated in DRED.

As required by Securities and Commodities Authority circular no. 411/2018 dated 07 July 2018, the Group does not hold any investment in Abraaj Group.

### 3.4 Revenue recognition

*Revenue from contracts with customers*

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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.4 Revenue recognition (continued)

*Revenue from contracts with customers (continued)*

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.

In cases where the Group determines the performance obligations are satisfied at a point in time, revenue is recognised when control over the assets 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 agent and has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognised in the consolidated financial statements 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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.4 Revenue recognition (continued)

*Revenue from contracts with customers (continued)*

*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 initially at cost, including related transaction costs, 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 lives of 25 years. The useful lives 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.

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 and other comprehensive income 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 and other comprehensive income 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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 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 and construction cost and all other costs which are necessary to get the properties ready for sale. Net realisable value represents the estimated selling value, based on sales relevant in the period, 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.

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.

### 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 construction costs and/or purchase consideration together with any incidental costs of acquisition.

Cost includes construction costs and 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 |
|---|---|
| Buildings | 25 |
| Furniture and fixtures | 6 |
| Tools and office equipment | 6 |
| Motor vehicles | 6 |

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 profit or loss and other comprehensive income.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 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.

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.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 3. Significant accounting policies (continued)

### 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 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9

**Financial assets**

*Classification and measurement*

Financial assets are regular way purchases or sales that require delivery of assets within the time frame established by regulation or convention in the marketplace. All such regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in the consolidated statement of profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows from payments of principal and interest on the outstanding principal, are subsequently measured at amortised cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, are subsequently measured at FVOCI;

- all other debt instruments such as debt instruments managed on a fair value basis or held for sale and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable designation at initial recognition of a financial asset on an asset-by-asset basis:
  - the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
  - the Group may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group has financial assets under "trade and other receivables" (excluding prepayments and advances), "other financial assets" and "cash and cash equivalents" that are subject to the expected credit loss model under IFRS 9 (note 2.1).

*Reclassifications*

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following change in business model. During the current financial year and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models for each reporting period to determine whether the business models have changed since the preceding period.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9 (continued)

**Financial assets (continued)**

*Reclassifications (continued)*

When a debt instrument measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. When an equity investment designated as measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is not subsequently reclassified to profit or loss but is reclassified to retained earnings.

Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

*Impairment*

IFRS 9 replaces the "incurred loss" model under IAS 39 with an "expected credit loss" (ECL) model. The Group recognises loss allowances for expected credit losses on 'trade and other receivables', 'other financial assets' and 'cash and bank balances'.

Other than for purchased or originated credit impaired financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (12-month ECL), (referred to as Stage 1); or
- lifetime ECL that result from all possible default events over the life of the financial instrument (life time ECL), (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets. For debt securities at FVOCI, the loss allowance is recognised in the OCI.

The Group has elected to measure loss allowances for cash and bank balances, other financial assets and trade and other receivables at an amount equal to life time ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information. For certain categories of financial assets that are assessed not to be impaired individually are, in addition, 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 as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment losses related to loans and advances are presented separately in the consolidated statement of profit or loss and OCI. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9 (continued)

**Financial assets (continued)**

*Measurement of ECL*

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios.

*Credit impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised costs and debt securities at FVOCI are credit-impaired.

**Financial liabilities and equity instruments issued by the Group**

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

The requirements for classification and measurement of financial liabilities under IFRS 9 are largely as existing under IAS 39. All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

### 3.14 Accounting policies for financial instruments under IAS 39

The accounting policies applied to the comparative figures of financial instruments prior to 1 January 2018 as per IAS 39 are disclosed below:

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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.14 Accounting policies for financial instruments under IAS 39 (continued)

**Financial assets (continued)**

*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.

*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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.14 Accounting policies for financial instruments under IAS 39 (continued)

**Financial assets (continued)**

*Impairment of financial assets (continued)*

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.

*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.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 3. Significant accounting policies (continued)

### 3.14 Accounting policies for financial instruments under IAS 39 (continued)

**Financial assets (continued)**

*Derecognition of financial assets (continued)*

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.

*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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 3. Significant accounting policies (continued)

### 3.14 Accounting policies for financial instruments under IAS 39 (continued)

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

*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.

### 3.15 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.

### 3.16 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.

### 3.17 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.

### 3.18 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.

## 4. Critical accounting judgments and key sources of estimation of 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.

**Notes to the consolidated financial statements**
**for the year ended 31 December 2018 (continued)**

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

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.

*Fair value of investment properties*

The Group's management estimates the market value of properties classified as investment properties based on market quotations of similar properties in the same location, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections, for the purposes of impairment reviews and disclosures of fair value of the investment properties in the consolidated financial information. In estimating the fair value of investment properties, management believes that the highest and best use of the property is their current use.

*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.

## 4. Critical accounting judgments and key sources of estimation of 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 trade and other receivables*

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

Effective 1 January 2018, amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied based on expected credit losses on such receivables. Until 31 December 2017, impairment was assessed and provision applied according to the length of the time past due.

*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 2018, 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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

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

***Key sources of estimation uncertainty (continued)***

*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.

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% (2017: 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.

*Useful lives of property and equipment and investment properties*

The costs of property and equipment and completed investment properties 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 2018 (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".

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Revenue | | |
| Domestic | **5,321,629** | 6,504,225 |
| International | **811,046** | 950,125 |
| | **6,132,675** | 7,454,350 |

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Development properties | | |
| Domestic | **8,172,378** | 8,207,859 |
| International | **1,042,144** | 1,435,192 |
| | **9,214,522** | 9,643,051 |

## 6. Property and equipment

| | Buildings AED'000 | Furniture and fixtures AED'000 | Tools and office equipments AED'000 | Motor vehicles AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2017 | - | 72,803 | 95,058 | 4,583 | 172,444 |
| Transfer from development properties (note 8) | 91,858 | - | - | - | 91,858 |
| Additions | - | 4,087 | 15,313 | 1,284 | 20,684 |
| Disposals | - | - | (265) | (559) | (824) |
| At 31 December 2017 | 91,858 | 76,890 | 110,106 | 5,308 | 284,162 |
| Additions | - | 4,082 | 6,883 | - | 10,965 |
| Disposals | - | (4,224) | (1,187) | (751) | (6,162) |
| **At 31 December 2018** | **91,858** | **76,748** | **115,802** | **4,557** | **288,965** |

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 6. Property and equipment (continued)

| | Buildings AED'000 | Furniture and fixtures AED'000 | Tools and office equipments AED'000 | Motor vehicles AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | |
| At 1 January 2017 | - | 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 |
| Charge for the year | 3,724 | 3,166 | 12,378 | 689 | 19,957 |
| Disposals | - | (4,014) | (756) | (681) | (5,451) |
| **At 31 December 2018** | **6,827** | **58,826** | **79,166** | **3,397** | **148,216** |
| **Carrying value** | | | | | |
| **At 31 December 2018** | **85,031** | **17,922** | **36,636** | **1,160** | **140,749** |
| At 31 December 2017 | 88,755 | 17,216 | 42,562 | 1,919 | 150,452 |

## 7. Investment properties

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

Movement during the year is as follows:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **197,021** | - |
| Transfer from development properties (note 8) | **-** | 203,114 |
| Depreciation for the year | **(8,125)** | (6,093) |
| Balance at the end of the year | **188,896** | 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 8.3% (2017: 7.5%) and vacancy rate of 15% (2017: 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 2018, the fair value of the completed investment properties and related land was AED 304 million (2017: 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 2018 (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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **9,643,051** | 10,245,064 |
| Additions | **3,639,059** | 3,513,108 |
| Transfer to cost of sales | **(3,998,731)** | (3,809,208) |
| Transfer to investment properties (note 7) | **-** | (203,114) |
| Transfer to property and equipment (note 6) | **-** | (91,858) |
| Disposal of a subsidiary | **(14,711)** | (10,941) |
| Provision for impairment | **(54,146)** | - |
| Balance at the end of the year | **9,214,522** | 9,643,051 |

*Impairment of development properties*

At 31 December 2018, 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 resulted in an impairment provision of AED 54 million during the current year (2017: AED nil).

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 the categories as follows:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Land held for future development | **576,908** | 534,663 |
| Properties under development | **6,546,544** | 7,626,907 |
| Completed properties | **2,091,070** | 1,481,481 |
| | **9,214,522** | 9,643,051 |

No borrowing costs have been capitalised to development properties.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 9. Other financial assets

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Escrow retention accounts | **1,019,836** | 1,009,668 |
| Margin deposits | **33,426** | 8,699 |
| Other | **2,005** | 6,390 |
| | **1,055,267** | 1,024,757 |

In accordance with applicable laws, the Group holds funds under escrow in Real Estate Regulatory 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.

Other financial assets are assessed to have low credit risk of default since these assets are held with banks that are highly regulated by the central banks of the respective countries. Accordingly, the management of the Group estimates the loss allowance at the end of the reporting period at an amount equal to 12 month ECL. Taking into account the historical default experience and the current credit ratings of the banks, the management of the Group have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

At 31 December 2018, 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 646 million (31 December 2017: AED 586 million) is held with Islamic banks and the remaining balance is held with conventional banks.

## 10. Trade and other receivables

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Unbilled receivables *(i)* | **4,447,471** | 5,118,024 |
| Trade receivables *(ii)* | **2,775,209** | 983,403 |
| Provision for impairment on trade receivables *(iii)* | **(24,108)** | (131,866) |
| | **7,198,572** | 5,969,561 |
| Advances and deposits | **778,766** | 573,947 |
| Other receivables, prepayments and other assets | **142,895** | 63,704 |
| | **8,120,233** | 6,607,212 |

*(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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 10. Trade and other receivables (continued)

*Movement in unbilled receivables during the year is as follows:*

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **5,118,024** | 3,287,357 |
| Increase due to project progress | **3,122,381** | 3,723,117 |
| Transfer to trade receivables | **(3,792,934)** | (1,892,450) |
| Balance at the end of the year | **4,447,471** | 5,118,024 |

*(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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **131,866** | 154,174 |
| Net reversal of impairment during the year (note 20) | **(107,758)** | (22,308) |
| Balance at the end of the year | **24,108** | 131,866 |

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.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence on credit risk.

The Group has entered into contracts for the sale of residential and commercial units and plots of land on an installment basis. The installments are specified in the contracts. The Group is exposed to credit risk in respect of installments due. However, the legal ownership of residential, commercial units and plots of land is transferred to the buyer only after all the installments are recovered. In addition, installment dues are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group establishes an allowance for impairment at each reporting date that represents its estimate of expected credit losses in respect of trade, unbilled and other receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group has calibrated the matrix to adjust the historical credit loss experience with forward-looking information.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 10. Trade and other receivables (continued)

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

| | Neither past due nor impaired AED'000 | 1 – 60 days AED'000 | 61 – 120 days AED'000 | 121 – 180 days AED'000 | Above 180 days AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2018** | **4,447,471** | **283,418** | **513,047** | **260,279** | **1,694,357** | **7,198,572** |
| 31 December 2017 | 5,118,024 | 224,215 | 118,343 | 111,989 | 396,990 | 5,969,561 |

Ageing of impaired trade receivables is as follows:

| | 1 – 60 days AED'000 | 61 – 120 days AED'000 | 121 – 180 days AED'000 | Above 180 days AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2018** | **221** | **190** | **880** | **22,817** | **24,108** |
| 31 December 2017 | 803 | 406 | 662 | 129,995 | 131,866 |

## 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 263 million to AED 283 million (2017: from AED 185 million to AED 263 million) which represents a 20% (2017: 20%) equity interest in the related entity. The financial investment is categorised under Level 3 in the fair value hierarchy.

## 12. Cash and bank balances

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Cash on hand | **1,468** | 835 |
| Cash held in escrow | **5,127,448** | 5,979,509 |
| Bank balances | **74,858** | 59,551 |
| Fixed deposits | **969,748** | 1,418,435 |
| Cash and bank balances | **6,173,522** | 7,458,330 |
| Fixed deposits with an original maturity of greater than three months | **(630,633)** | (1,417,819) |
| Bank overdrafts (note 14) | **-** | (163,844) |
| Cash and cash equivalents | **5,542,889** | 5,876,667 |

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 12. Cash and bank balances (continued)

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.

Balances with banks are assessed to have low credit risk of default since these assets are held with banks that are highly regulated by the central banks of the respective countries. Accordingly, the management estimates the loss allowance at the end of the reporting period at an amount equal to 12 month ECL. Taking into account the historical default experience and the current credit ratings of the banks, the management have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

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

At the reporting date, fixed deposits and bank balances of AED 200 million (2017: AED 195 million) are held by banks under lien against credit facilities issued to the Group.

At the reporting date, an amount of AED 3,487 million (2017: AED 4,585 million) is held with Islamic banks and the remaining balance is held with conventional banks.

## 13. Share capital

| | **2018 AED'000** | 2017 AED'000 |
|---|---|---|
| Issued, subscribed and fully paid shares of AED 1 each | **6,050,000** | 6,050,000 |

## 14. Bank borrowings

| | **2018 AED'000** | 2017 AED'000 |
|---|---|---|
| Bank facilities | **667,213** | 651,577 |
| Overdrafts (note 12) | **-** | 163,844 |
| | **667,213** | 815,421 |

a) At the reporting date, an amount of AED 194 million (2017: AED 222 million) is outstanding with Islamic banks and the remaining 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 56 million was repaid as at 31 December 2018.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 14. Bank borrowings (continued)

*Conventional banks and financial institutions*

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

- AED 276 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2020.
- AED 147 million term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2021.
- 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 124 million was repaid as at 31 December 2018.
- 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 57 million was repaid as at 31 December 2018.

c) As at 31 December 2018, the Group had arranged for bank facilities amounting to AED 1,972 million (2017: AED 1,833 million) in the form of letters of credit and guarantees out of which AED 754 million (2017: AED 896 million) remained unutilised as at the reporting date.

d) The non-funded facilities are mainly secured by mortgages over certain properties owned by the Group with a market value of AED 598 million (2017: AED 614 million), corporate guarantees of the Company and pledges over bank accounts and deposits of AED 200 million (2017: AED 195 million).

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

| | **2018 AED'000** | 2017 AED'000 |
|---|---|---|
| On demand or within one year | **237,201** | 542,577 |
| In the second and third years | **430,012** | 272,844 |
| | **667,213** | 815,421 |

f) The cash flows from bank facilities represent net drawdown of borrowings in the consolidated statement of cash flows.

| | **1 January 2018 AED'000** | **Cash flows *(i)* AED'000** | **Other changes AED'000** | **31 December 2018 AED'000** |
|---|---|---|---|---|
| Bank facilities | 651,577 | 15,636 | - | **667,213** |

*(i)* The cash flows from bank facilities represent drawdowns net of repayments during the year in the consolidated statement of cash flows.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 15. Sukuk certificates

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Sukuk certificates | **4,300,440** | 3,958,989 |
| Unamortised issue costs | **(20,006)** | (21,460) |
| Carrying amount | **4,280,434** | 3,937,529 |

*Movement in unamortised issue costs is as follows:*

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **21,460** | 10,875 |
| Incurred during the year | **11,282** | 21,978 |
| Amortised during the year | **(12,736)** | (11,393) |
| Balance at the end of the year | **20,006** | 21,460 |

- 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 19 April 2018, the Group repurchased sukuk certificates worth US$ 181 million (AED 667 million) at a premium.

- 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 2018 (continued)**

## 15. Sukuk certificates (continued)

- On 30 September 2018, the Group redeemed US$ 125 million (AED 459 million) of sukuk certificates on maturity.

- On 18 April 2018, the Group issued US$ 400 million (AED 1,470 million) Sukuk Trust Certificates (the "Certificates") maturing in 2023. Alpha Star Holding V 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 6.625% per annum.

*The repayment profile of sukuk certificates is as follows:*

| | **2018 AED'000** | 2017 AED'000 |
|---|---|---|
| Amount due for settlement within 12 months | **993,324** | 455,618 |
| Amount due for settlement after 12 months | **3,287,110** | 3,481,911 |
| | **4,280,434** | 3,937,529 |

*Reconciliation of liabilities arising from financing activities*

| | **1 January 2018 AED'000** | **Cash flows *(i)* AED'000** | **Other changes *(ii)* AED'000** | **31 December 2018 AED'000** |
|---|---|---|---|---|
| Sukuk certificates | 3,937,529 | 330,169 | 12,736 | **4,280,434** |

*(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 consolidated 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.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **3,274,496** | 4,196,801 |
| Amounts billed during the year | **5,504,120** | 6,792,480 |
| Revenue recognised during the year | **(6,070,137)** | (7,433,574) |
| Other operating income recognised during the year (note 19) | **(90,668)** | (281,211) |
| Balance at the end of the year | **2,617,811** | 3,274,496 |

As at reporting date, the aggregate amount of transaction price allocated to unsatisfied, or partially satisfied performance obligations is AED 10,327 million (2017: 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.

### 17. Trade and other payables

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Accruals | **1,036,997** | 1,077,961 |
| Retentions payable *(i)* | **944,702** | 872,611 |
| Deferred consideration payable for land | **360,000** | 799,597 |
| Other payables *(ii)* | **1,109,654** | 652,982 |
| Provision for employees' end-of-service indemnity *(iii)* | **49,720** | 47,562 |
| | **3,501,073** | 3,450,713 |

*(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 2018 *(a)* AED'000 | Cash flows *(b)* AED'000 | Other changes *(c)* AED'000 | 31 December 2018 *(a)* AED'000 |
|---|---|---|---|---|
| Other payables | 45,788 | (312,825) | 325,618 | **58,581** |

(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 consolidated statement of cash flows.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 17. Trade and other payables (continued)

(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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **47,562** | 37,623 |
| Charge for the year | **13,921** | 18,664 |
| Payments during the year | **(11,763)** | (8,725) |
| Balance at the end of the year | **49,720** | 47,562 |

## 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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Entities under the control of Chairman | | |
| Investment in Damac International Limited *(i)* | **(20,400)** | (77,651) |
| Support services fees *(ii)* | **4,836** | 8,535 |

*(i) Investment in Damac International Limited*

During the year, the Group increased its investment in Damac International Limited by AED 20 million (2017: AED 78 million), a related entity under the control of the Chairman (note 11).

*(ii) Support services fees*

During the year, the Group received AED 4.8 million (2017: AED 8.5 million) towards support services rendered to Damac International Limited and DICO Investments Co. LLC, both related entities under the control of the Chairman (note 21).

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 18. Related party transactions (continued)

**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*.

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **11,647** | 13,479 |
| Other long term benefits | **496** | 651 |
| | **12,143** | 14,130 |

### 19. Other operating income

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Income from cancellation of units (note 16) | **90,668** | 281,211 |
| Penalties from overdue customers | **3,983** | 8,830 |
| Unit registration and transfer fees | **4** | 542 |
| | **94,655** | 290,583 |

### 20. General, administrative and selling expenses

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Staff costs | **480,265** | 470,886 |
| Selling and marketing expenses | **271,951** | 370,108 |
| Repairs and maintenance | **56,046** | 41,806 |
| Rent and license fees | **43,743** | 48,641 |
| Legal and professional | **50,557** | 36,803 |
| Travel and communication | **35,016** | 29,846 |
| Bank charges | **16,706** | 26,852 |
| Insurance | **17,079** | 13,140 |
| Tax expense | **7,910** | 12,696 |
| Reversal of impairment on trade receivables (note 10) | **(107,758)** | (22,308) |
| Other | **26,925** | 35,028 |
| | **898,440** | 1,063,498 |

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 21. Other income

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Property management fees | **57,853** | 25,648 |
| Support services fees (note 18) | **4,836** | 8,535 |
| Gain on disposal of a subsidiary | **2,936** | 3,469 |
| Other | **14,570** | 18,658 |
| | **80,195** | 56,310 |

## 22. Finance income

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Islamic banks and financial institutions | **89,515** | 72,024 |
| Conventional banks and financial institutions | **72,778** | 69,148 |
| | **162,293** | 141,172 |

## 23. Finance costs

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Islamic banks and financial institutions | **279,190** | 214,621 |
| Conventional banks and financial institutions | **46,428** | 58,035 |
| | **325,618** | 272,656 |

## 24. Contingent liabilities

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Bank guarantees | **1,218,555** | 937,251 |

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 2018.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 25. Commitments

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

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Contracted for | **4,585,581** | 5,407,712 |

*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:

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| Within one year | **45,039** | 8,055 |
| After one year but no more than five years | **64,672** | 34,635 |
| More than five years | **196,137** | 204,997 |
| Total | **305,848** | 247,687 |

*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.

### 26. 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*

| | 2018 AED'000 | 2017 AED'000 |
|---|---|---|
| *Financial assets* | | |
| At amortised cost | **14,440,017** | 14,478,266 |
| Financial investments | **283,073** | 262,673 |
| | **14,723,090** | 14,740,939 |
| *Financial liabilities* | | |
| At amortised cost | **8,399,000** | 8,156,101 |

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 26. 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 fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. The entire portfolio of financial investments (note 11) is classified as Level 3.

## 27. 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.

**Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)**

## 27. Financial risk management (continued)

*(b) Interest rate risk management (continued)*

*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 2018 would decrease/increase by AED 6.8 million (2017: AED 5.8 million). This is mainly attributable to the Group's exposure to variable rate financial instruments.

*(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.

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 27. Financial risk management (continued)

*(e) Liquidity risk management (continued)*

*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 2018:** | | | | | |
| Non-interest bearing | - | 3,376,353 | 75,000 | - | 3,451,353 |
| Fixed interest rate instruments | 6.08 | 994,520 | - | 3,305,920 | 4,300,440 |
| Variable interest rate instruments | 6.38 | 237,201 | 381,007 | 49,005 | 667,213 |
| | | 4,608,074 | 456,007 | 3,354,925 | 8,419,006 |
| **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 |

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 2018:** | | | | | |
| Non-interest bearing | - | 12,415,002 | - | - | 12,415,002 |
| Variable interest rate instruments | 2.67 | 2,025,015 | - | - | 2,025,015 |
| | | 14,440,017 | - | - | 14,440,017 |
| **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 |

## Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

### 28. 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.

### 29. Earnings per share

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.

| | **2018** | 2017 |
|---|---|---|
| Profit for the year (AED'000) | **1,151,894** | 2,759,777 |
| Weighted average number of ordinary shares ('000) | **6,050,000** | 6,050,000 |
| Earnings per ordinary share – Basic and diluted (AED) | **0.19** | 0.46 |

### 30. Dividend

On 22 April 2018 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 2018.

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.

### 31. Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 was approved by the Board of Directors and authorised for issue on 27 March 2019.