

Union Properties
Public Joint Stock Company
and its subsidiaries

Consolidated financial statements
31 December 2007

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated financial statements

31 December 2007

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Directors' Report

Directors' Report

The Directors have the pleasure in presenting their report together with the audited consolidated financial statements of Union Properties Public Joint Stock Company and its subsidiaries ("the Group") for the year ended 31 December 2007.

Financial Results

The Group has made AED 684 million in consolidated net profit for 2007. Highlights and the comparative 2006 numbers appear below:

AED Million			
Parameter	2007	2006	Change %
Revenues	2,921.9	2,525.0	16%
Operating profits	404.8	352.1	15%
Share of profit in JV & Associate companies	38.2	48.8	(22%)
Gain on revaluation of Investment Property	307.5	229.7	34%
Net profit	684.4	613.9	11%

The Directors propose the following appropriations from retained earnings:

	AED million
a) Transfer to Statutory Reserve	13.6
b) Transfer to General Reserve	68.4
c) Directors' fees	6.9

In accordance with the Group's Memorandum and Articles of Association, the transfer to the statutory reserve was limited to AED13.6 million to reach 50% of the paid up capital.

The Directors are not proposing dividend distribution this year considering the Group's current and future growth plans and the adequacy of its capital base. This is subject to the approval of the shareholders at the Annual General Meeting.

After appropriations total assets and total shareholders' equity stood at AED 11,098 million and AED 5,225 million respectively at 31 December 2007.

Directors

The Board of Directors comprised of:

- Mr Anis Al Jallaf	Chairman
- Mr Fardan Bin Ali Alfardan	Vice Chairman
- Mr Mohammed Omar Bin Haider	Director
- Mr Abdul Aziz Yaqoob Al Serkal	Director
- Mr Abdullah Rashed Abdullah Omran	Director
- Mr Saeed Mohammed Al Sharid	Director
- Mr Yousuf Yaqoob Yousuf Al Serkal	Director

Auditors

M/s. KPMG were appointed as auditors of the Company at the Annual General Meeting held on 16 April 2007. M/s. KPMG are eligible for re-appointment, and have expressed their willingness to continue in office.

On behalf of the Board
Anis Al Jallaf
Chairman



P O Box 3800
Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

Independent auditors' report

The Shareholders
Union Properties Public Joint Stock Company

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Union Properties Public Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper books of accounts have been kept by the Company, a physical count of inventories was carried out by management in accordance with established principles and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above-mentioned Law and the Articles of Association having occurred during the year ended 31 December 2007, which may have had a material adverse effect on the business of the Group or its financial position.

Vijendranath Malhotra
(Registration No. B 48)

Dubai, United Arab Emirates

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Union Properties Public Joint Stock Company and its subsidiaries

Consolidated income statement

for the year ended 31 December 2007

		2007			2006		
		Property management & sales AED'000	Other operating activities AED'000	Total AED'000	Property management & sales AED'000	Other operating activities AED'000	Total AED'000
	Note						
Revenue	5	539,824	2,382,034	2,921,858	544,433	1,980,606	2,525,039
Direct costs	5	(177,452)	(2,217,247)	(2,394,699)	(271,561)	(1,836,679)	(2,108,240)
Gross profit		362,372	164,787	527,159	272,872	143,927	416,799
Administrative and general expenses	6			(122,377)			(64,707)
Financial income and expense (net)	7			(74,064)			(21,637)
Other income	8			7,965			5,012
Gain on fair valuation of investment properties	11			307,521			229,690
Share of profit in joint ventures	31(a) & (b)			38,227			48,811
Net profit for the year				684,431			613,968
Basic and diluted earnings per share (AED)	35			0.25			0.22

The notes on pages 7 to 42 form part of these consolidated financial statements.

The independent auditors' report is set out on page 2.

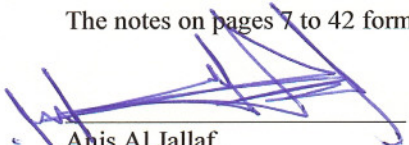
Union Properties Public Joint Stock Company and its subsidiaries

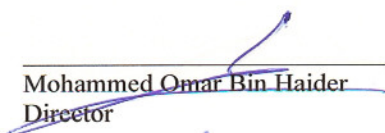
Consolidated balance sheet

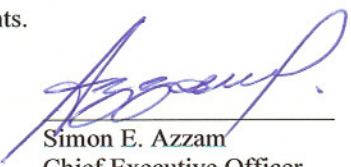
at 31 December 2007

	Note	2007 AED'000	2006 AED'000
Intangible assets	9	40,776	40,776
Property, plant and equipment	10	375,867	366,904
Investment properties	11	2,814,043	2,629,039
Development properties	12	3,992,911	1,774,679
Investment in joint ventures	31(a) & (b)	221,905	146,277
Long-term receivables	13	289,440	125,222
Current assets			
Investment in marketable securities	14	13,217	60,981
Inventories	15	101,171	55,361
Contract work-in-progress	16	217,208	500,236
Trade and other receivables	17	2,936,364	1,778,959
Due from related parties	18	7,082	20,459
Cash in hand and at banks	19	88,330	51,340
		<u>3,363,372</u>	<u>2,467,336</u>
Current liabilities			
Trade and other payables	20	1,304,760	1,271,557
Advances and deposits	21	1,021,200	199,643
Due to related parties	18	5,590	3,016
Bank borrowings	22	1,109,122	689,155
Current portion of long-term bank loans	23	75,803	87,234
		<u>3,516,475</u>	<u>2,250,605</u>
Net current (liabilities) / assets		(153,103)	216,731
Long-term bank loans	23	(2,193,667)	(606,609)
Deferred income	24	(37,688)	(39,938)
Long-term payables	25	(70,249)	(62,260)
Provision for employees' terminal benefits	26	(55,423)	(37,765)
		<u>5,224,812</u>	<u>4,553,056</u>
Net assets		5,224,812	4,553,056
Represented by			
Share capital	27	2,782,526	2,226,021
Treasury shares	27	(4,998)	(4,998)
Proposed bonus shares	27	-	556,505
Statutory reserve	28	1,391,263	1,377,678
General reserve	28	237,387	168,944
Hedging reserve	29	(3,354)	2,441
Revaluation surplus	10(i)	39,507	39,507
Retained earnings		782,481	186,958
		<u>5,224,812</u>	<u>4,553,056</u>

The notes on pages 7 to 42 form part of these consolidated financial statements.


Anis Al Jallaf
Chairman


Mohammed Omar Bin Haider
Director


Simon E. Azzam
Chief Executive Officer

The independent auditors' report is set out on page 2.

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Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December 2007

	Note	2007 AED'000	2006 AED'000
Operating activities			
Net profit for the year		684,431	613,968
<i>Adjustments for:</i>			
Depreciation	10	38,099	33,569
Accrual made for Directors' fees	20 & 33	(4,000)	(4,000)
Excess accrual for Directors' fees reversed		-	4,000
Share of profit in joint ventures	31(a) & (b)	(38,227)	(48,811)
Gain on disposal of property, plant and equipment	8	(1,203)	(948)
Gain on fair valuation of investment properties	11	(307,521)	(229,690)
Income from government grant	8	(2,250)	(2,250)
Financial income and expense (net)	7	74,064	21,637
<i>Operating cash flow before working capital changes</i>		443,393	387,475
Change in trade and other receivables		(1,171,530)	(881,110)
Change in property held for sale		-	36,312
Change in inventories		(45,810)	(20,301)
Change in contract work-in-progress		283,028	(372,364)
Change in long-term receivables		(164,218)	(69,574)
Change in due from related parties		13,377	10,135
Change in trade and other payables		29,849	261,397
Change in due to related parties		2,574	2,543
Change in long-term payable		7,989	(266,209)
Change in advances and deposits		821,557	(110,998)
Change in employees' terminal benefits (net)		17,658	12,768
Directors' fees paid		(2,880)	(2,400)
<i>Cash flow from/(used in) operating activities</i>		234,987	(1,012,326)
Investing activities			
Additions to property, plant and equipment	10	(49,121)	(53,481)
Additions to investment properties	11	(108,690)	(272,288)
Additions to development properties (net)	12	(1,987,025)	(470,588)
Proceeds from disposal of property, plant and equipment		3,262	2,022
Repayment of loan by a joint venture		-	100,000
Proceeds received on maturity of investment		52,399	33,000
Interest received		5,447	35,254
Purchase of investments at fair value through profit or loss		(1,500)	(65,852)
Investment in a joint venture		(37,401)	(29,999)
<i>Cash used in investing activities</i>		(2,122,629)	(721,932)
Financing activities			
Term loans obtained		1,649,805	72,315
Net movement in trust receipts		196,075	70,340
Net movement in short-term loans		(51,263)	201,263
Repayment of term loans		(74,178)	(56,303)
Interest paid		(70,962)	(43,406)
Proceeds from rights issue		-	17,823
Treasury shares purchased		-	(4,998)
<i>Cash flow from financing activities</i>		1,649,477	257,034
Net decrease in cash and cash equivalents		(238,165)	(1,477,224)
Cash and cash equivalents at the beginning of the year		(359,181)	1,118,043
Cash and cash equivalents at the end of the year	34	(597,346)	(359,181)

The notes on pages 7 to 42 form part of these consolidated financial statements.

The independent auditors' report is set out on page 2.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2007

	Share capital AED'000	Treasury shares AED'000	Share premium AED'000	Proposed bonus shares AED'000	Statutory reserve AED'000	General reserve AED'000	Hedging reserve AED'000	Revaluation surplus AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2006	1,778,216	-	-	444,554	1,301,709	107,547	864	-	254,689	3,887,579
Net profit for the year	-	-	-	-	-	-	-	-	613,968	613,968
Auction of unsubscribed shares of rights issue	3,251	-	14,572	-	-	-	-	-	-	17,823
Transfer of share premium to statutory reserve	-	-	(14,572)	-	14,572	-	-	-	-	-
Treasury shares purchased (Note 27)	-	(4,998)	-	-	-	-	-	-	-	(4,998)
Bonus shares issued	444,554	-	-	(444,554)	-	-	-	-	-	-
Transfer to statutory reserve (Note 28)	-	-	-	-	61,397	-	-	-	(61,397)	-
Transfer to general reserve (Note 28)	-	-	-	-	-	61,397	-	-	(61,397)	-
Net movement in unrealised gain on cash flow hedge	-	-	-	-	-	-	1,577	-	-	1,577
Directors' fees (Note 33)	-	-	-	-	-	-	-	-	(6,400)	(6,400)
Excess accrual for Directors' fees reversed (Note 33)	-	-	-	-	-	-	-	-	4,000	4,000
Proposed bonus shares (Note 27)	-	-	-	556,505	-	-	-	-	(556,505)	-
Gain on revaluation of property, plant and equipment transferred to investment property (Note 10 (i))	-	-	-	-	-	-	-	39,507	-	39,507
Balance at 31 December 2006	2,226,021	(4,998)	-	556,505	1,377,678	168,944	2,441	39,507	186,958	4,553,056
Balance at 1 January 2007	2,226,021	(4,998)	-	556,505	1,377,678	168,944	2,441	39,507	186,958	4,553,056
Net profit for the year	-	-	-	-	-	-	-	-	684,431	684,431
Bonus shares issued	556,505	-	-	(556,505)	-	-	-	-	-	-
Transfer of hedging reserve to income statement (Note 7 and 29)	-	-	-	-	-	-	(2,441)	-	-	(2,441)
Net movement in unrealised gain on cash flow hedge	-	-	-	-	-	-	(3,354)	-	-	(3,354)
Directors' fees (Note 33)	-	-	-	-	-	-	-	-	(6,880)	(6,880)
Transfer to statutory reserve (Note 28)	-	-	-	-	13,585	-	-	-	(13,585)	-
Transfer to general reserve (Note 28)	-	-	-	-	-	68,443	-	-	(68,443)	-
Balance at 31 December 2007	2,782,526	(4,998)	-	-	1,391,263	237,387	(3,354)	39,507	782,481	5,224,812

In accordance with the interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 by the Ministry of Economy & Commerce, directors' fees have been treated as an appropriation of retained earning.

The notes on pages 7 to 42 form part of these consolidated financial statements.

Union Properties Public Joint Stock Company and its subsidiaries

Notes

(forming part of the consolidated financial statements)

1 Legal status and principal activities

Union Properties Public Joint Stock Company (“the Company”) was incorporated on 28 October 1993 as a public joint stock company by a United Arab Emirates Ministerial decree.

The principal activities of the Company are investment in and development of properties, the management and maintenance of its own properties including the operation of cold stores, the undertaking of property related services on behalf of other parties, including related parties and acting as the holding company of its subsidiaries and investing in joint ventures as set out in note 30.

The Company and its subsidiaries are collectively referred to as “the Group”. The Company's registered office address is PO Box 24649, Dubai, United Arab Emirates (“UAE”).

2 Basis of preparation

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost convention except in respect of investment properties, investments at fair value through profit and loss and derivatives which are stated at fair values.

Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirham (“AED”), which is also the Group’s functional currency. All financial information presented in AED has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in these consolidated financial statements are described in note 38.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise a consolidation of the audited financial statements of the Company and its subsidiaries on a line-by-line basis. The principal subsidiaries and joint ventures together with their reporting dates and principal activities have been disclosed in note 30.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases. The accounting policies adopted by the subsidiaries are consistent with that adopted by the Group.

Joint ventures

(i) Jointly controlled entities

Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. Investment in joint ventures are accounted for under the equity method, whereby the investment is initially recorded at cost and adjusted thereafter at each balance sheet date for the post acquisition change in the Group's share of net assets of the investee. Dividends are reduced from the carrying amount of the investment when declared.

(ii) Jointly controlled operations

Jointly controlled operations are those operations that involve the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the ventures themselves. Each venture uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represents its own obligations. The joint venture agreement usually provides a means by which the revenue from the joint contract and any expenses incurred in common are shared among ventures. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenue and expenses of jointly controlled operations on a line-by-line basis.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated similarly to unrealised gains, but only to the extent that there is no evidence of impairment.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

	%
Buildings and leasehold improvements	5 to 33
Plant and machinery	10 to 20
Furniture, fixtures and office equipment	25 to 50
Motor vehicles	25
Gymnasium equipment	20
Equipment and tools	33 to 50

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

Investment properties

Land and buildings owned by the Company for the purposes of generating rental income or capital appreciation or both are classified as investment properties. Where the Company provides ancillary services to the occupants of a property, it treats such a property as investment property if the services are a relatively insignificant component of the arrangement as a whole.

Investment properties are initially measured at cost, including related transaction costs. After initial recognition, investment properties are accounted using the fair value model under International Accounting Standard (“IAS”) 40. Any gain or loss arising from a change in fair value is recognized in the income statement.

A property interest under an operating lease is classified and accounted for as an investment property on a property by property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy for ‘Operating lease payments’.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized directly in equity as revaluation surplus if it is a gain. Upon disposal of the item, the gain is transferred directly to retained earnings to the extent of the revaluation surplus recognized in equity. Any loss arising in this manner is recognized in the income statement immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

Development properties

Property that is being constructed or developed for future use as investment property is classified as development property and stated at cost less impairment losses, if any, until construction or development is complete, at which time it is reclassified as investment property. Furthermore, properties being developed for sale in the normal course of operations of the Group are also classified as development properties until construction or development is complete, at which time it is reclassified as trading property. The cost of development property comprises the cost of construction and any directly attributable costs.

Intangible assets

(i) Goodwill

The excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition is recorded as goodwill. Goodwill attributable to investment in joint ventures is shown as part of the carrying value of investment in joint ventures. Goodwill attributable to subsidiaries is shown as goodwill on the consolidated balance sheet.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other intangibles

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the consolidated income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

Financial instruments

(i) Non derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, long-term receivables, trade receivables, due from related parties, cash and cash equivalents, trade payables, due to related parties, long-term payables and bank loans and borrowings.

Non-derivative financial instruments are recognized initially at fair value, plus for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash and bank balances including fixed deposits and bank borrowings with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Investments at fair value through profit or loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated income statement.

Others

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less impairment losses, if any.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are recognized at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognized directly in equity. The ineffective part of any gain or loss is recognized in the consolidated income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and recognized in the consolidated income statement immediately.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

Impairment

(i) *Financial asset*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at effective interest rate. Impairment losses, if any, are recognized in the consolidated income statement.

(ii) *Non-financial asset*

The carrying amounts of the Company's non-financial assets, other than investment properties and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses, if any, are recognized in the consolidated income statement.

Inventories

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

Contract work-in-progress

Contract work in progress is stated at contract costs plus estimated attributable profits less foreseeable losses and progress billings. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the Group's contractual activities based on normal operating capacity. For contracts where progress billings exceed the contract revenue, the excess is included in current liabilities as billings in excess of valuation.

Staff terminal benefits

The provision for staff terminal benefits, disclosed as a long-term liability, is calculated in accordance with the UAE Federal Labour Law and is based on the liability that would arise if the employment of the entire Group's staff were terminated at the consolidated balance sheet date.

Provision

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

Revenue recognition

(i) **Goods sold and services rendered**

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Sale of property on a long-term basis that qualify to be treated as finance leases are regarded as such. Revenue from the sale of properties on a freehold basis or under finance lease is recognized in the income statement when the significant risks and rewards of ownership are transferred to the buyer. Significant risks and rewards of ownership are deemed to be transferred to the buyer when price risk is transferred to the buyer by signing of the contract agreement and the buyer has been granted access to the property.

(ii) **Contracting**

Contract revenue on construction contracts is stated at contract cost plus estimated attributable profits less any foreseeable losses recognized during the year. Profit is recognized only when the outcome of the contract can be reliably estimated. Contract revenue is recognized on the percentage of completion method. The estimated final gross margin is applied to costs to arrive at the profit on the contract. Provision is made for all losses incurred to the accounting date together with any further losses foreseen in bringing the contract to completion.

(iii) **Rental income**

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

(iv) **Government grant**

An unconditional non-monetary government grant of an asset recorded at fair value is recognized in the income statement as revenue when the grant becomes receivable. Any other government grant is recognized in the balance sheet initially as deferred income when there is a reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Such deferred income is recognized as income on a systematic basis over the useful life of the asset or over the periods necessary to match them with the related costs which they are intended to compensate or as the conditions related to the grant are fulfilled.

Operating lease payments

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives allowed by the lessor are recognized in the income statement as an integral part of the total lease payments made.

Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

3 Significant accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rates ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the income statement.

Finance income and expenses

Finance income comprises interest income on fixed deposits, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognized in the income statement. Interest income is recognized as it accrues in the income statement, using the effective interest method. Dividend income is recognized in the income statement on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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

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

Earnings per share

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 financial statements. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualify asset as part of the cost of that asset. Accordingly, the adoption of the revised IAS 23 is not expected to have a material impact on the consolidated financial statements.

4 Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly attributable to trade receivables and cash at bank. The exposure to credit risk on trade receivables is monitored on an ongoing basis by the management and these are considered recoverable by the Group’s management. The Group’s cash is placed with banks of good repute.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

4 Financial risk management (continued)

Credit risk (continued)

Trade and other receivables

For retail real estate property sales, the credit risk for the Group is minimised by the fact that financial institutions are willing to finance property purchases for general public. However the Group faces significant credit risk on real estate property sales to corporate or even individual customers (especially on land sales) as the Group provides credit terms to such customers. In order to mitigate the credit risk, the Group receives post dated cheques for all outstanding payments and does not transfer the legal title of the property unit to the customer until the full amount has been paid.

For construction contracts, generally the customer to the Group is the main contractor on the job. Furthermore, often the payment terms for these contracts are back-to-back. Thus, the Group can be affected not just by the default risk of the main contractor but also of the ultimate client of the project. Approximately, 75% percent of the Group's contract revenue is attributable to a single government customer. However, the Group works for this client through various main contractors. The Board of Directors constantly reviews and assesses the credit as well as business risk of having such a significant exposure to a single client.

For receivables on sale of properties, the risk of financial loss to the Group on account of customer default is low as the property title acts as collateral. For other trade and contract receivables, the Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and contract receivables. The main component of this provision are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries or to joint ventures, however, only to the extent of their share of equity in the investee companies. For details of corporate guarantees given by the Group on behalf of the joint ventures, refer note 36.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk mainly relates to payables to suppliers. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

4 Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group incurs financial liabilities in order to manage market risks.

Equity risk

The Group buys certain marketable equity securities and also incurs financial liabilities where they need to manage market risks. Dealings in marketable equity securities and taking up bank facilities are approved by the Board of Directors.

Interest rate risk

The interest rate on the Group's financial instruments is based on market rates. The Group has entered into interest rate swaps to minimise its exposure to changes in interest rates on certain bank borrowings.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

5 Revenue and direct costs

A. Property management & sales:

	Property rentals AED'000	Property sales AED'000	Total AED'000
2007			
Revenue	192,456	347,368	539,824
Direct costs	(36,008)	(141,444)	(177,452)
Gross profit	156,448	205,924	362,372
2006			
Revenue	140,641	403,792	544,433
Direct costs	(33,624)	(237,937)	(271,561)
Gross profit	107,017	165,855	272,872

B. Other operating activities:

	Contracting AED'000	Hospitality AED'000	Others AED'000	Total AED'000
2007				
Revenue	2,245,207	42,074	94,753	2,382,034
Direct costs	(2,103,616)	(17,300)	(96,331)	(2,217,247)
Gross profit	141,591	24,774	(1,578)	164,787
2006				
Revenue	1,856,508	37,727	86,371	1,980,606
Direct costs	(1,749,118)	(13,905)	(73,656)	(1,836,679)
Gross profit	107,390	23,822	12,715	143,927

The above costs include finance costs amounting to AED 8.8 million (2006: AED 5.9 million), staff costs amounting to AED 419.1 million (2006: AED 384.3 million) and depreciation amounting to AED 30.4 million (2006: AED 23.1 million).

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

6 Administrative and general expenses

	2007 AED'000	2006 AED'000
<i>These include the following:</i>		
Staff costs	46,163	30,410
Marketing and advertising expenses	24,837	8,630
Depreciation	7,700	8,015
	=====	=====

7 Financial income and expense (net)

Recognized in the consolidated income statement

	2007 AED'000	2006 AED'000
Interest income	5,447	35,254
Gain on termination of interest rate swap contracts (refer note 29)	2,316	-
Net change in fair value of financial assets at fair value through profit or loss (refer note 14)	3,135	-
	-----	-----
Financial income	10,898	35,254
	-----	-----
Interest expense on financial liabilities measured at amortised cost	(70,962)	(43,406)
Net change in fair value of financial assets at fair value through profit or loss (refer note 39)	-	(4,872)
Provision for doubtful debts on contract and trade receivables (refer note 37(a) and 39)	(14,000)	(8,613)
	-----	-----
Financial expense	(84,962)	(56,891)
	-----	-----
Financial income and expense recognized in the consolidated income statement (net)	(74,064)	(21,637)
	=====	=====

Recognized directly in equity

Effective portion of changes in fair value of cash flow hedge recognized in hedging reserve (refer note 29)	(3,354)	1,577
	=====	=====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

8 Other income

	2007 AED'000	2006 AED'000
Profit on sale of property, plant and equipment	1,203	948
Miscellaneous income	4,512	1,814
Income from government grant (refer note 24)	2,250	2,250
	-----	-----
	7,965	5,012
	=====	=====

9 Intangible assets

	Goodwill AED '000	Other intangibles AED '000	Total AED '000
Cost			
Balance at 1 January 2006	2,838	40,481	43,319
Balance at 31 December 2006	2,838	40,481	43,319
Balance at 1 January 2007	2,838	40,481	43,319
Balance at 31 December 2007	2,838	40,481	43,319
Amortisation and impairment losses			
Balance at 1 January 2006	2,543	-	2,543
Balance at 31 December 2006	2,543	-	2,543
Balance at 1 January 2007	2,543	-	2,543
Balance at 31 December 2007	2,543	-	2,543
Carrying amounts			
At 31 December 2007	295	40,481	40,776
At 31 December 2006	295	40,481	40,776

- (i) Other intangibles comprise a non-refundable signing fee of USD 10 million, together with associated expenses, paid in respect of the Formula One Theme Park Project as per the License agreement between the Company and the Formula One Administration Limited (FOA), a company formed under the laws of United Kingdom. The agreement pertains to the use of the FOA intellectual property rights, the FOA historical archives and materials and for the assistance of FOA in establishing and promoting the Formula One Theme Park Project including the right to use the FOA's F1 and Formula One trade marks and logos in the official name of the Formula One Theme Park Project and gives the Company the exclusive right to develop Formula One Theme Parks around the world. The intangible asset will be amortised over a period of 10 years commencing on the launch of the Formula One Theme Park project expected in 2009.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

10 Property, plant and equipment

	Balance at beginning of the year AED'000	Additions/ charge AED'000	Transfers in/(out) AED'000	Disposals AED'000	Balance at end of the year AED'000
2007					
Cost					
Land	39,288	-	-	-	39,288
Buildings and leasehold improvements	352,352	5,183	-	(1,990)	355,545
Plant and machinery	18,572	6,432	-	-	25,004
Furniture, fixtures and office equipment	66,261	17,475	-	(773)	82,963
Motor vehicles	20,997	18,496	6,288	(1,136)	44,645
Gymnasium equipment	3,132	143	-	(1,769)	1,506
Equipment and tools	1,981	1,392	-	(238)	3,135
Capital work in progress	9,164	-	(6,288)	-	2,876
	511,747	49,121	-	(5,906)	554,962
Accumulated depreciation					
Buildings and leasehold improvements	46,898	16,149	-	(1,147)	61,900
Plant and machinery	9,397	2,023	-	-	11,420
Furniture, fixtures and office equipment	36,293	14,084	-	(461)	49,916
Motor vehicles	8,995	5,192	-	(1,056)	13,131
Gymnasium equipment	1,924	357	-	(1,030)	1,251
Equipment and tools	1,336	294	-	(153)	1,477
	104,843	38,099	-	(3,847)	139,095
Book value	406,904				415,867
Less: Impairment provision (note (ii) below)	(40,000)				(40,000)
Net book value	366,904				375,867
2006					
Cost					
Land	48,790	-	(9,502)	-	39,288
Buildings and leasehold improvements	361,691	4,405	(12,142)	(1,602)	352,352
Plant and machinery	16,596	2,085	-	(109)	18,572
Furniture, fixtures and office equipment	43,916	27,357	-	(5,012)	66,261
Motor vehicles	14,050	8,156	-	(1,209)	20,997
Gymnasium equipment	1,818	1,314	-	-	3,132
Equipment and tools	943	1,049	-	(11)	1,981
Capital work in progress	258	9,115	-	(209)	9,164
	488,062	53,481	(21,644)	(8,152)	511,747
Accumulated depreciation					
Buildings and leasehold improvements	34,946	16,163	(3,081)	(1,130)	46,898
Plant and machinery	7,915	1,533	-	(51)	9,397
Furniture, fixtures and office equipment	29,511	11,610	-	(4,828)	36,293
Motor vehicles	6,531	3,522	-	(1,058)	8,995
Gymnasium equipment	1,638	286	-	-	1,924
Equipment and tools	892	455	-	(11)	1,336
	81,433	33,569	(3,081)	(7,078)	104,843
Book value	406,629				406,904
Less Impairment provision (note (ii) below)	(40,000)				(40,000)
Net book value	366,629				366,904

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

10 Property, plant and equipment (continued)

- (i) Three floors of Union House, a building owned by the Company, which were owner occupied, were vacated in the previous year. Accordingly, these were transferred to investment property at fair value amounting to AED 19.2 million (net book value: AED 12.8 million) (refer note 11) which included a revaluation gain of AED 6.4 million that was recognized directly in equity in 2006.

Furthermore, the Company had transferred 1.94 million square feet of land pertaining to the Autodrome, from property, plant and equipment to investment properties due to a change in use of the said land. The land was transferred to investment property at a fair value amounting to AED 38.8 million (cost: AED 5.7 million) (refer note 11) which included a revaluation gain of AED 33.1 million that was recognized directly in equity in 2006.

- (ii) In the previous years, management had identified that on the basis of current and forecast performance, the carrying cost of the Autodrome may need to be adjusted for impairment losses. In accordance with IAS 36, a discounted cash flow forecast was prepared to ascertain value in use. This indicated that an impairment provision was required and an impairment provision of AED 40 million was made.

During the current year, management has revisited its impairment workings. Future cash flow projections have been prepared and discounted at the weighted average cost of capital of 9%, and a perpetuity growth of 5% has been assumed. Based on the revision to the impairment model, management believes that no further impairment provision is required.

11 Investment properties

	2007 AED'000	2006 AED'000
Balance at 1 January	2,629,039	1,886,350
Additions during the year	108,690	272,288
Gain on fair valuation (refer note (ii) below)	307,521	229,690
Transfer (to)/from development properties	(231,207)	182,640
Transfer from property, plant and equipment to investment properties (refer note 10)	-	58,071
	-----	-----
Balance at 31 December	2,814,043	2,629,039
	=====	=====
Investment properties comprise:		
Freehold land and buildings	2,749,043	2,561,039
Buildings on leasehold land	65,000	68,000
	=====	=====

- (i) Investment properties include a property, Skywalk Towers, which comprises furnished executive apartments, a part of Green Community office building no. 3 and two floors of Union House that are leased for short durations. Management is of the view that the ancillary services provided to occupants are a relatively insignificant component of the arrangements as a whole and accordingly, the properties have been treated as investment properties.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

11 Investment properties (continued)

- (ii) At 31 December 2007, the Group has obtained fair values for all properties based on open market valuation carried out by an independent registered value, Cluttons. This has resulted in a net gain on valuation of investment properties of AED 228.2 million (2006: AED 229.7 million), which is included in the consolidated income statement.

Certain plots of land within Motorcity have been internally valued by management based on the minimum lease payments for those leased on a long term basis and the sale price of neighbouring plots. Furthermore, certain plots of land are retained by management for development of retail areas to be used in future as an investment property. Management considers that the cost of these properties best represents their fair value at 31 December 2007. The net gains on properties internally valued by management, based on the above, amounts to AED 79.3 million which is included in the consolidated income statement.

- (iii) Certain buildings have been constructed on land leased from the Government of Dubai, the leases of which are renewed annually. The Directors are of the opinion that the leases will be renewed upon expiry and are not likely to be cancelled in the foreseeable future.
- (iv) A property, which the Group holds in its name on behalf of a significant shareholder, a bank under a trust agreement, is not included in the consolidated financial statements.

12 Development properties	2007 AED'000	2006 AED'000
Balance at 1 January	1,774,679	1,486,731
Additions during the year	2,113,166	647,164
Transfer from/(to) investment properties (refer note 11(iii))	231,207	(182,640)
Sales of properties	(126,141)	(176,576)
	=====	=====
Balance at 31 December	3,992,911	1,774,679
	=====	=====
The cost of development properties comprise:		
Construction cost	2,768,099	744,256
Land cost	1,165,776	999,058
Interest capitalised	59,036	31,365
	=====	=====
	3,992,911	1,774,679
	=====	=====

At 31 December 2007, development properties include trading properties amounting to AED 74.5 million (2006: Nil).

13 Long-term receivables	2007 AED'000	2006 AED'000
Long-term property sales receivables	137,646	-
Long-term retention receivables	150,944	124,363
Other long-term receivables	850	859
	=====	=====
	289,440	125,222
	=====	=====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

14 Investment in marketable securities

	2007 AED'000	2006 AED'000
Financial assets at fair value through profit or loss	13,217 =====	60,981 =====

- (i) The Group has made investments in certain quoted marketable equity securities, which have been designated as financial assets at fair value through profit and loss account and accounted for at fair value. Fair valuation gain of AED 3.1 million has been recognized in the consolidated income statement (refer note 7).
- (ii) The Group has also invested AED 3.3 million in a real estate fund. The amount invested forms two capital calls to the extent of 65% of the Group's commitment to invest in the real estate fund. The above investment is carried at cost. In the opinion of management, the fair value of this investment is not materially different from the carrying amount at 31 December 2007.
- (iii) During the year, the Group sold its investment in certain structured deposits at a value of AED 52.2 million.

Sensitivity analysis – equity price risk

All of the Group's quoted marketable equity investments are listed on the Dubai Financial Market. A ten percent increase in the price of its equity holding would have increased the fair value of the securities by AED 1 million (2006: AED 0.7 million); an equal change in the opposite direction would have decreased the fair value of the securities by AED 1 million (2006: AED 0.7 million). The analysis is performed on the same basis for 2006.

15 Inventories

	2007 AED'000	2006 AED'000
Stock in trade	25,271	3,510
Project related material	50,451	34,726
Spares and consumables	9,431	16,876
Less: provision for slow moving materials	(3,831)	(732)
	-----	-----
	81,322	54,380
Goods in transit	19,849	981
	-----	-----
	101,171 =====	55,361 =====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

16 Contract work-in-progress/billings in excess of valuation

	2007 AED'000	2006 AED'000
Costs plus attributable profit less foreseeable losses	324,590	936,897
Less: progress billings received and receivable	(232,927)	(515,213)
	-----	-----
	91,663	421,684
	=====	=====
Disclosed in the consolidated balance sheet as follows:		
Contract work in progress	217,208	500,236
Billings in excess of valuation (refer note 20)	(125,545)	(78,552)
	-----	-----
	91,663	421,684
	=====	=====

17 Trade and other receivables

	2007 AED'000	2006 AED'000
Contract receivables	1,710,955	643,112
Property sale receivables	70,045	-
Other trade receivables	54,260	17,524
Retentions due within one year	136,801	67,450
	-----	-----
	1,972,061	728,086
Advances to contractors	774,612	878,426
Other receivables and prepayments	220,463	188,055
Receivable on interest rate swap	-	2,441
	-----	-----
	2,967,136	1,797,008
Less: provision for doubtful receivables and retentions (refer note 37(a))	(30,772)	(18,049)
	-----	-----
	2,936,364	1,778,959
	=====	=====

Certain contract receivables are assigned in favour of the banks for facilities availed by a subsidiary (refer note 22).

The Group's exposure to credit risks and impairment losses related to loans and receivables are disclosed in note 37.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

18 Transactions with related parties

The Group, in the normal course of business, enters into transactions with other enterprises, which fall within the definition of a related party contained in IAS 24. Such transactions are on terms and conditions believed by the Group's management to be comparable with those that could be obtained from third parties. The transactions with related parties, other than those already disclosed separately elsewhere in the consolidated financial statements, are as follows:

	2007 AED'000	2006 AED'000
Project management income and income from contracts	16,477	18,865
Long-term loans obtained from consortium of banks for which a significant shareholder of the Company is the lead arranger	1,635,099	-
Interest earned from deposit with a significant shareholder, a bank	2,360	10,802
Interest on bank overdraft paid to a significant shareholder, a bank	10,084	7,776
Interest on term loan paid to a significant shareholder, a bank	43,310	16,680
Advertisement expenses	17,662	17,823
Compensation to key management personnel are as follows:		
- Salaries and other short term employee benefits	14,578	6,774
- Provision towards employees terminal benefits	920	654
	=====	=====

19 Cash in hand and at banks

	2007 AED'000	2006 AED'000
Cash in hand	719	667
Cash at banks in:		
- Fixed deposit accounts	16,745	4,685
- Current accounts	70,854	45,510
- Margin deposit accounts	12	478
	-----	-----
	88,330	51,340
	=====	=====

Fixed deposits carry interest rate ranging from 4% to 6% and have an original maturity of less than three months.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in note 37.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

20 Trade and other payables

	2007 AED'000	2006 AED'000
Trade payables	366,975	227,476
Billings in excess of valuation (refer note 16)	125,545	78,552
Other payables and accruals	774,669	939,086
Retention due within one year	30,217	22,443
Directors' fees payable	4,000	4,000
Payable on interest rate swap	3,354	-
	-----	-----
	1,304,760	1,271,557
	=====	=====

The Group's exposure to liquidity risk related to trade payables is disclosed in note 37.

21 Advances and deposits

	2007 AED'000	2006 AED'000
Advances relating to property sales	656,175	31,751
Advances relating to construction contracts	290,865	106,690
Other advances and deposits	21,376	15,954
Rent received in advance	52,784	45,248
	-----	-----
	1,021,200	199,643
	=====	=====

22 Bank borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk and liquidity risk, refer note 37.

	2007 AED'000	2006 AED'000
Bank overdraft	245,065	269,925
Bills/cheques discounted	440,611	140,596
Trust receipts	273,446	77,371
Short-term loans from banks	150,000	201,263
	-----	-----
	1,109,122	689,155
	=====	=====

Bank borrowings includes AED 1,027.7 million (2006: AED 527.7 million) due to a significant shareholder, a bank.

Bank borrowings of a subsidiary amounting to AED 902 million (2006: AED 401.9 million) are secured by joint and several guarantees of the Company, a letter of undertaking by the Company stating that their shareholding in the subsidiary will not be reduced below 81% as long as the banking facilities are outstanding and assignment of certain contract receivables (refer note 17).

Bank borrowings carry interest at prevailing commercial rates.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

22 Bank borrowings (continued)

The short-term bank loan in the current year is secured by:

- Undertaking to register first degree mortgage over two properties in favour of the bank covering the total facilities;
- Deposit of original title deeds of the property;
- Assignment of rental income in respect of a property; and
- Assignment of insurance policy of the above mentioned properties.

23 Long-term bank loans

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk and liquidity risk, refer note 37.

	2007 AED'000	2006 AED'000
Balance at 31 December	2,269,470	693,843
Less: current portion	(75,803)	(87,234)
	-----	-----
Non-current portion	2,193,667	606,609
	=====	=====

- (i) The Company has a term loan facility from a significant shareholder, a bank amounting to AED 188.2 million. At 31 December 2007, the loan amount outstanding is AED 127.1 million (2006: AED 143.1 million). The loan is repayable in quarterly instalments commencing 31 March 2003 over the period of eleven years and nine months or until 31 December 2012, whichever is earlier, depending on drawings under the facility and carries interest at prevailing commercial rates.

The above loan is secured by:

- Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default;
- Assignment of rental income in respect of a property;
- Assignment of insurance policy of a property; and
- Promissory note of AED 188.2 million.

- (ii) The Company has a term loan facility of AED 64 million from a bank which is payable in 40 quarterly instalments starting from 1 February 2003. At 31 December 2007, the loan amount outstanding is AED 32.0 million (2006: AED 38.4 million). This loan is secured by:

- Irrevocable undertaking/commitment to mortgage over a property at any time during the tenure of the loan in the event of default;
- Assignment of fire insurance policy of a property; and
- Assignment of rental income from a property.

- (iii) The Company has a term loan of AED 150 million from a significant shareholder, a bank, which is repayable in 16 equal half yearly instalments commencing 28 January 2005. At 31 December 2007, the loan amount outstanding is AED 93.8 million (2006: AED 112.5 million). This loan is secured by:

- Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default; and
- Promissory note for AED 150 million.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

23 Long-term bank loans (continued)

- (iv) The Company has a term loan facility from a bank of AED 70 million. At 31 December 2007, the loan outstanding is AED 43.65 million (2006: AED 51.43 million). The loan is repayable in 36 quarterly instalments commencing from 26 January 2005. This loan is secured by:
 - a. Assignment of lease proceeds of a property;
 - b. Assignment of fire insurance policy of a property; and
 - c. Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default.
- (v) The Company has a term loan facility from a bank of AED 65 million, which is payable in 32 equal quarterly instalments commencing 20 July 2004. At 31 December 2007, the loan amount outstanding is AED 36.56 million (2006: AED 44.69 million). This loan is secured by:
 - a. Assignment of lease proceeds of certain properties;
 - b. Assignment of insurance policy of properties; and
 - c. Irrevocable undertaking/commitment to mortgage over the properties at any time during the tenure of the loan in the event of default.
- (vi) The Company has a term loan facility from a bank of AED 50 million, which is repayable in 32 equal quarterly instalments commencing from 30 June 2004. At 31 December 2007, the loan amount outstanding is AED 28.13 million (2006: AED 34.38 million). This loan is secured by:
 - a. Irrevocable assignment of lease rentals from a property;
 - b. Assignment of insurance policy of a property; and
 - c. Promissory note for AED 50 million.
- (vii) The Company has a term loan facility of AED 290 million from a bank which is payable in 40 quarterly instalments starting from 31 March 2006. At 31 December 2007, the loan amount outstanding is AED 273.14 million (2006: AED 269 million). The loan is secured by:
 - a. Deposit of Title deeds of property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default;
 - b. Assignment of insurance policy of a property; and
 - c. Assignment of lease proceeds of certain properties.
- (viii) During the current year, the Company has obtained a term loan facility of AED 1,000 million from a significant shareholder, a bank, which is payable in 4 quarterly instalments starting from 31 March 2009. At 31 December 2007, the loan amount outstanding is AED 733.11 million. The loan is secured by:
 - a. Deposit of title deeds of property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default; and
 - b. Assignment of insurance policy of a property.
- (ix) During the current year, the Company has obtained a term loan facility of AED 2,743 million from a consortium of banks, including a significant shareholder, which is payable in 4 quarterly instalments starting from 30 September 2009. At 31 December 2007, the loan amount outstanding is AED 901.98 million. The loan is secured by:
 - a. Deposit of title deeds of property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default;
 - b. Assignment of receivables in connection with the with the project financed; and
 - c. Assignment of lease proceeds of certain properties.

The loan has certain financial covenants relating to debt-equity ratio and other commitments which were met at 31 December 2007.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

24 Deferred income

	2007 AED'000	2006 AED'000
Balance at 1 January	39,938	42,188
Less: income recognized during the year (refer note 8)	(2,250)	(2,250)
	-----	-----
Balance at 31 December	37,688	39,938
	=====	=====

In 2003, the Company received a plot of land from the Government of Dubai as a grant. The grant of land comprises two separate grants. The first grant of the land area has been granted with a condition to build an Autodrome comprising a motor racing circuit and related assets. The second grant comprising the remaining part of the land area had no conditions attached to it other than compliance with relevant local regulations. The land and the associated grant have been recorded on a gross basis at the fair value of the land at the time it was granted based on the open market valuation carried out by an independent registered valuer, Cluttons.

The Autodrome was completed in October 2004 and classified as property, plant and equipment. It will be depreciated over its estimated useful life of 20 years from date of completion. The grant relating to the Autodrome land has been recognized in the financial statements as deferred income and would be recognized in the income statement over the estimated useful life of the Autodrome of 20 years.

The fair value of the other land was recognized as income in 2003 as it has no conditions attached to it.

25 Long-term payables

	2007 AED'000	2006 AED'000
Long-term payables on purchase of land	21,163	27,982
Long-term retention payables	49,086	34,278
	-----	-----
	70,249	62,260
	=====	=====

26 Provision for employees' terminal benefits

	2007 AED'000	2006 AED'000
Balance at 1 January	37,765	24,997
Provision made during the year	25,027	16,200
Payments made during the year	(7,369)	(3,432)
	-----	-----
Balance at 31 December	55,423	37,765
	=====	=====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

27 Share capital, bonus shares and treasury shares

	2007 AED'000	2006 AED'000
Issued and fully paid up:		
2,782,526,019 (2006: 2,226,020,815) shares of AED 1 each	2,782,526	2,226,021
Treasury shares purchased:		
1,098,437 (2006: 878,750) shares of AED 1 each	(4,998)	(4,998)
	-----	-----
Shares outstanding at 31 December	2,777,528	2,221,023
	=====	=====

At 31 December 2007, the share capital comprised of ordinary equity shares. All issued shares are fully paid. The holders of ordinary equity shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During the year, as approved by its shareholders, the Company issued bonus shares of AED 556.51 million, being 25% of the paid up share capital of the Company at 31 December 2006.

The cost of treasury shares purchased represents purchase of the Company's shares by a subsidiary. These are shown as a deduction from equity.

28 Statutory and general reserves

According to Federal Commercial Companies Law No. 8 of 1984 (as amended), 10% of the annual net profit of the Company and its subsidiaries is appropriated to statutory reserve until such reserve equals 50% of the paid-up share capital. Such allocations may be ceased when the statutory reserve equals half of the paid up share capital of the Company. Allocation for 2007 were limited to AED 13.6 million to reach 50% of the paid up capital.

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

These reserves are not available for distribution.

29 Hedge accounting

IAS 39 (revised 2003), *Financial Instruments: Recognition and Measurement*, requires recognition of derivative financial instruments on the balance sheet at their fair values. The Company uses interest rate swaps to hedge its risk associated primarily with the variability in cash flows resulting from interest rate fluctuations on term loans.

During 2005, the Group had obtained interest rate swaps with periodic knockout structure to hedge 50% of its long-term loan portfolio representing a total notional amount of AED 258.4 million. As per the swap arrangement, the Group used to pay a fixed rate and receive floating rate. The swap was used to protect the term loans taken by the Company from exposure to any increase in interest rates. In the current year, these interest rate swaps have been terminated and a gain of AED 2.3 million was transferred from hedging reserve to the income statement (refer note 7).

Furthermore, in the current year, the Group has obtained certain new range accrual interest rate swaps with periodic knockout structure to hedge its long-term loan portfolio representing a total notional amount of AED 205.1 million. The swap is used to protect the term loans taken by the Company from exposure to any increase in interest rates and has generated positive net cash inflow to the company during the year. At 31 December 2007, the fair value loss on the interest rate swaps amounts to AED 3.4 million, which has been debited to hedging reserve and included as part of equity.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

30 Subsidiaries and joint ventures

At 31 December 2007, the Company holds investments in the following subsidiaries, joint venture and associate. These entities are limited liability companies and have 31 December as their reporting date:

Entity	Incorporated in	Effective ownership	Principal activities
Subsidiaries			
Thermo LLC	UAE	100%	Contracting of electrical, mechanical and plumbing works of building projects, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
ServeU LLC	UAE	100%	Facilities management, security, MEP and energy management services.
Nautilus LLC	UAE	80%	Providing services to operate and manage health clubs and all related or ancillary services. The entity is in the process of closing its operations.
Edara LLC	UAE	100%	Project management services and property services.
Dubai Autodrome LLC	UAE	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
OITC Thermo WLL	Qatar	85%	Contracting of electrical, mechanical and plumbing works of building projects, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
Speedcar Series Limited, BVI	British Virgin Island	100%	Organising and providing speed cars for international motor races.
Joint ventures			
Properties Investment LLC	UAE	50%	Property investment and development related activities.
Emirates District Cooling LLC	UAE	50%	Constructing, installing and operating cooling and conditioning systems.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

31 Interest in joint ventures

(a) Properties Investment LLC

The Group has a 50% equity interest in Properties Investment LLC. This investment is accounted for under the equity method. The Group's interest in the assets, liabilities, revenues and expenses of the joint venture is as follows:

	2007 AED'000	2006 AED'000
Non-current assets	408,654	307,942
Current assets	146,591	168,741
Non-current liabilities	(53,017)	(49,734)
Current liabilities	(348,292)	(304,300)
Inter-company elimination	(5,065)	(10,892)
	-----	-----
Net assets	148,871	111,757
	=====	=====
Income	130,945	119,314
Expenses	(99,658)	(68,200)
Inter-company elimination	5,827	(3,618)
	-----	-----
Net profit	37,114	47,496
	=====	=====

(b) Emirates District Cooling LLC

In 2003, the Company had contributed AED 4 million towards 40% of the share capital of Emirates District Cooling LLC ("Emicool"). The Group acquired an additional 10% shareholding in the joint venture effective 1 August 2006 at a cost of AED 2.5 million. This amount included an amount for goodwill of AED 1.3 million. During the year, the entity has increased its share capital and the Group has made a contribution of AED 37.4 million, being 50% of the total investment made.

At 31 December 2007, the Group has a 50% equity interest in Emicool. This investment is accounted for under the equity method. The Group's interest in the assets, liabilities, revenues and expenses of joint venture is as follows:

	2007 AED'000	2006 AED'000
Non-current assets	215,433	105,402
Current assets	8,548	18,139
Non-current liabilities	(117,433)	(56,134)
Current liabilities	(33,514)	(32,887)
	-----	-----
Net assets	73,034	34,520
	=====	=====
Income	19,011	11,876
Expenses	(17,898)	(10,561)
	-----	-----
Net profit	1,113	1,315
	=====	=====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

31 Interest in joint ventures (continued)

- (c) On 4 April 2002, Thermo LLC entered into an agreement with Airmech (Dubai) LLC to carry out a contract under a joint venture, Thermo/Airmech Joint Venture. Furthermore on 16 June 2004, Thermo LLC entered into an agreement with Overseas AST Company LLC to carry out contract under joint venture, Thermo/Overseas AST Joint Venture. The details of the Group's share in the results of operations, assets and liabilities of joint venture operations included in the consolidated financial statements are as follows:

	2007 AED'000	2006 AED'000
Non-current assets	-	2,049
Current assets	4,129	4,840
Current liabilities	-	(5,075)
	-----	-----
Net assets	4,129	1,814
	=====	=====
Income	-	10,656
Expenses	(401)	(16,214)
	-----	-----
Net loss	(401)	(5,558)
	=====	=====

- (d) During 2004, Edara LLC entered into agreements with Confluence (formerly known as Asia Pacific Projects) to carry out project management services under a joint venture. The details of the Group's share in the operations, assets and liabilities of the joint ventures operation included in the consolidated financial statements are as follows:

	2007 AED'000	2006 AED'000
Current assets	169	1,648
Current liabilities	(169)	(1,648)
	-----	-----
Net assets	-	-
	=====	=====
Income	4,622	4,098
Expenses	(4,622)	(3,893)
	-----	-----
Net profit	-	205
	=====	=====

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

32 Minority interest

During 2003, Thermo LLC ("Thermo") had acquired 85% of the voting power of OITC Thermo WLL and 15% is held by the minority shareholders. Thermo has agreed with the minority shareholders that they are not liable to contribute to the share capital of the subsidiary and the minority shareholders have provided rent-free premises in lieu of their contribution to the share capital of the subsidiary.

Furthermore, the Company holds 80% of the voting power of Nautilus LLC ("Nautilus") and the balance 20% is held by the minority shareholders. During the year, Nautilus has sold off a substantial part of its business to a third party and is in the process of liquidating the entity. The disposal represents divestiture of non-core operations of the Group. At 31 December 2007, the net equity of Nautilus amounts to AED 0.4 million.

33 Directors' fees

This represents professional fees paid/payable to the Company's directors for serving on any committee, for devoting special time and attention to the business or affairs of the Company and for otherwise performing services outside the scope of their ordinary activities. In accordance with the interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 by the Ministry of Economy & Commerce, directors' fees have been treated as an appropriation of retained earnings.

34 Cash and cash equivalents

	2007 AED'000	2006 AED'000
Cash in hand and at bank (refer note 19)	88,330	51,340
Bank overdraft (refer note 22)	(245,065)	(269,925)
Bills/cheques discounted (refer note 22)	(440,611)	(140,596)
	-----	-----
	(597,346)	(359,181)
	=====	=====

35 Basic and diluted earnings per share

	2007	2006
Net profit attributable to shareholders (AED'000)	684,431	613,968
Weighted average number of shares	2,781,427,582	2,780,238,968
	=====	=====

For recalculating the earnings per share for 2006, the weighted average number of shares has been adjusted as if the bonus issue had occurred at the beginning of 2006 as well as to reflect the timing and impact of the rights issue.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

36 Capital commitments and contingent liabilities

	2007 AED'000	2006 AED'000
Commitments:		
Purchase commitments (letters of credit)	439,444	852,517
Capital commitments	6,305,884	2,895,578
	=====	=====
Contingent liabilities:		
Letters of guarantee	1,371,910	708,451
	=====	=====

The Company has provided corporate guarantees of AED 112.5 million (2006: AED 112.5 million) and AED 218 million (2006: AED 50 million) to banks in respect of facilities granted by it to the joint ventures.

37 Financial instruments

Financial assets of the Group include investment in marketable securities, long-term receivables, trade receivables, due from related parties and cash and bank balances. Financial liabilities of the Group include trade payables, due to related parties, bank borrowings, term loans from banks, long term payables and derivatives.

Analysis of financial assets and financial liabilities is as under:

	Designated at fair value through income statement AED'000	Financial assets and liabilities at amortised cost AED'000	Derivatives designated as cash flow hedging instruments AED'000	Total AED'000
31 December 2007				
Financial assets				
Marketable equity securities	13,217	-	-	13,217
Long-term receivables	-	288,590	-	288,590
Trade receivables	-	1,941,289	-	1,941,289
Due from related parties	-	7,082	-	7,082
Cash in hand and at banks	-	88,330	-	88,330
Total	13,217	2,325,291	-	2,338,508
Financial liabilities				
Trade payables	-	366,975	-	366,975
Due to related parties	-	5,590	-	5,590
Bank borrowings - short term	-	1,109,122	-	1,109,122
Long-term bank loans	-	2,269,470	-	2,269,470
Long-term payables	-	70,249	-	70,249
Interest rate swaps	-	-	3,354	3,354
Total	-	3,821,406	3,354	3,824,760

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

37 Financial instruments (continued)

	Designated at fair value through income statement AED'000	Financial assets and liabilities at amortised cost AED'000	Derivatives designated as cash flow hedging instruments AED'000	Total AED'000
31 December 2006				
Financial assets				
Marketable equity securities	60,981	-	-	60,981
Long-term receivables	-	124,363	-	124,363
Trade receivables	-	710,037	-	710,037
Due from related parties	-	20,459	-	20,459
Cash in hand and at banks	-	51,340	-	51,340
Interest rate swaps	-	-	2,441	2,441
Total	60,981	906,199	2,441	969,621
Financial liabilities				
Trade payables	-	227,476	-	227,476
Due to related parties	-	3,016	-	3,016
Bank borrowings - short term	-	689,155	-	689,155
Long-term bank loans	-	693,843	-	693,843
Long-term payables	-	62,260	-	62,260
Total	-	1,675,750	-	1,675,750

(a) Credit risk

Exposure to credit risk

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

	2007 AED'000	2006 AED'000
Trade and retention receivables	2,260,651	852,449
Due from related parties	7,082	20,459
Cash at banks	87,611	50,673
Interest rate swaps used for hedging – assets	-	2,441
	-----	-----
	2,355,344	926,022
	=====	=====

Trade and retention receivables include an amount of AED 207.7 million (2006: Nil) on sale of property where the legal title to the property is retained by the Group as a collateral. At 31 December 2007, the fair value of the properties held as collateral by the Group approximates to AED 275.3 million.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

37 Financial instruments (continued)

(a) Credit risk (continued)

Impairment losses

The aging of contract and other trade receivables at the reporting date was:

	2007		2006	
	Gross AED'000	Provision AED'000	Gross AED'000	Provision AED'000
Not past due	1,477,012	-	524,451	-
Less than 90 days	529,948	(129)	209,935	(269)
Past due 91 – 360 days	195,541	(2,204)	70,563	-
More than one year	58,150	(28,439)	47,500	(17,780)
	-----	-----	-----	-----
Total	2,260,651	(30,772)	852,449	(18,049)
	=====	=====	=====	=====

The movement in the provision for doubtful debts in respect of trade receivables during the year was as follows:

	2007 AED'000	2006 AED'000
Balance at 1 January	18,049	9,436
Provision for the year (refer note 7)	14,000	8,613
Provision reversed	(1,277)	-
	-----	-----
Balance at 31 December (refer note 17)	30,772	18,049
	=====	=====

(b) Interest rate risk

The Company is exposed to interest rate risk on cash at bank, borrowings and loans from banks (notes 19, 22 and 23).

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	2007 AED'000	2006 AED'000
Fixed rate instruments		
Financial assets	16,745	4,685
	=====	=====

Fixed rate assets comprise bank deposits.

Variable rate instruments

Financial liabilities	3,378,592	1,382,998
	=====	=====

Variable rate instruments comprise bank loans and bank borrowings.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

37 Financial instruments (continued)

(b) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

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

	Income statement		Equity	
	100 bp Increase AED'000	100 bp Decrease AED'000	100 bp Increase AED'000	100 bp Decrease AED'000
31 December 2007				
Variable rate instruments	(12,068) =====	12,068 =====	(12,068) =====	12,068 =====
31 December 2006				
Variable rate instruments	(10,589) =====	10,589 =====	(10,589) =====	10,589 =====

(c) Currency risk

Currency risk faced by the Group is minimal as there are minimal foreign currency transactions.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

37 Financial instruments (continued)

(d) Liquidity risk

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

Financial liabilities	Carrying amount AED'000	Contractual cash flows AED'000	less than 6 months AED'000	6-12 Months AED'000	1-2 years AED'000	2-5 years AED'000	more than 5 years AED'000
31 December 2007							
Secured bank loans	2,269,470	2,406,322	38,480	38,480	1,342,206	771,657	215,499
Due to related parties	5,590	5,590	5,590	-	-	-	-
Unsecured bank facility	864,057	889,979	889,979	-	-	-	-
Trade payables	366,975	366,975	366,975	-	-	-	-
Other long-term payables	70,249	70,249	-	-	70,249	-	-
Bank overdraft	245,065	252,417	252,417	-	-	-	-
Total	3,821,406	3,991,532	1,553,441	38,480	1,412,455	771,657	215,499
31 December 2006							
Secured bank loans	693,843	732,272	37,973	37,973	82,085	249,707	324,534
Due to related parties	3,016	3,016	3,016	-	-	-	-
Unsecured bank facility	419,230	431,807	431,807	-	-	-	-
Trade payables	227,476	227,476	227,476	-	-	-	-
Other long-term payables	62,260	62,260	-	-	62,260	-	-
Bank overdraft	269,925	278,023	278,023	-	-	-	-
Total	1,675,750	1,734,854	978,295	37,973	144,345	249,707	324,534

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

37 Financial instruments (continued)

(e) Equity risk

The Group's exposure to equity price risk is disclosed in note 14.

(f) Fair value

The fair values of the Group's financial instruments approximate their carrying values.

38 Significant accounting estimates and judgements

Revenue recognition for real estate properties

Revenue from the sale of properties on freehold basis or under finance lease is recognized in the consolidated income statement when the significant risks and rewards of ownership are transferred to the buyer. Significant risks and rewards of ownership are deemed to be transferred to the buyer when price risk is transferred to the buyer by signing of the contract agreement and the buyer has been granted access to the property.

Revenue recognition for contracting activities

Revenue from contracting activities is recognised in the consolidated income statement when the outcome of the contract can be reliably estimated. The Group generally starts recognising revenue when the project is 10-15% complete. The measurement of contract revenue is based on the percentage of completion method and is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from period to period.

Impairment losses on property, plant and equipment and intangible assets

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

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

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment on an annual basis. The Group has carried out a review of the residual values and useful lives of property, plant and equipment as at 31 December 2007 and the management has not highlighted any requirement for an adjustment to the residual lives and remaining useful lives of the assets for the current or future periods.

Valuation of investment properties

The Group obtains fair values for most of its properties based on an open market valuation carried out by an independent registered valuer, Cluttons. The valuations are prepared considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

38 Significant accounting estimates and judgements (continued)

Provision for obsolete inventory

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

Provisions on receivables

The Group reviews its receivables to assess impairment at least on an annual basis. The Group's credit risk is primarily attributable to its contract and trade receivables and due from related parties. In determining whether impairment losses should be reported in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, a provision for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Provisions in project accruals

In order to recognise cost of properties sold, management needs to estimate the total cost of the project considering the fact the all the project accounts may not be finalised as at the balance sheet date. To achieve that, provisions are initially made as a percentage of the total anticipated project cost and adjusted based on judgement as the project progresses. At 31 December 2007, the Group carries a provision of AED 29.6 million (2006: AED 47 million) towards project accounts not yet settled with contractors.

39 Comparatives

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements. Those include doubtful debts provisions on contract and other trade receivables, and loss on fair value of financial assets at fair value through profit or loss.