

Union Properties  
Public Joint Stock Company  
and its subsidiaries

Consolidated financial statements  
*31 December 2008*

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated financial statements

31 December 2008

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## Directors' Report

The Directors have the pleasure of presenting their report together with the audited consolidated statements of Union Properties Public Joint Stock Company and its subsidiaries ("the Group") for the year ended 31 December 2008.

### Financial Results

The Group has made net profit before contracting related activities provisions of AED 1,263 million (growth of 85% compared to Year 2007).

Revenue for 2008 reached AED 3,637 million (growth of 24% compared to 2007) and net profit after provisions for contracting related activities stood at AED 763 million (growth of 12% compared to 2007).

The Directors propose the following appropriations from retained earnings:

|                                  | AED Million |
|----------------------------------|-------------|
| a) Transfer to Statutory Reserve | 76.3        |
| b) Transfer to General Reserve   | 76.3        |
| c) Directors' fees               | 6.9         |

The Board proposed the distribution of 10% of the Group's paid up capital as bonus shares (i.e. 10 shares for each 100 shares owned by the shareholders). 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 19,220 million and AED 5,980 million respectively at 31 December 2008.

### Directors

The Board of Directors comprised of:

|                             |               |
|-----------------------------|---------------|
| Mr Anis Abdulla Al Jallaf   | Chairman      |
| Mr Khalid Kalban            | Vice Chairman |
| Mr Mohammed Omar Bin Haider | Director      |
| Mr Abdul Aziz Al Serkal     | Director      |
| Mr Saeed Mohammed Al Sharid | Director      |
| Mr Ali Al Fardan            | Director      |
| Mr Hamad Buamim             | Director      |

### Auditors

M/s. KPMG were appointed as auditors of the Company for the year ended 31 December 2008 at the Annual General Meeting held on 22 April 2008. M/s. KPMG are eligible for re-appointment for 2009 audit, and have expressed their willingness to continue in office.

On behalf of the board

Anis Al Jallaf  
Chairman  
Dubai



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Level 32, Emirates Towers  
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## **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 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of 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 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 of 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 financial statements.

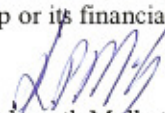
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, 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 Group'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 2008, 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

18 MAR 2009

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated income statement

for the year ended 31 December 2008

|                                                                                |                   | 2008                                           |                                             |                    | 2007                                           |                                             |                  |
|--------------------------------------------------------------------------------|-------------------|------------------------------------------------|---------------------------------------------|--------------------|------------------------------------------------|---------------------------------------------|------------------|
|                                                                                |                   | Property<br>management<br>and sales<br>AED'000 | Other<br>operating<br>activities<br>AED'000 | Total<br>AED'000   | Property<br>management<br>and sales<br>AED'000 | Other<br>operating<br>activities<br>AED'000 | Total<br>AED'000 |
|                                                                                | Note              |                                                |                                             |                    |                                                |                                             |                  |
| <b>Revenue</b>                                                                 | 5                 | <b>354,209</b>                                 | <b>3,282,797</b>                            | <b>3,637,006</b>   | 539,824                                        | 2,382,034                                   | 2,921,858        |
| Direct costs                                                                   | 5                 | <b>(109,520)</b>                               | <b>(3,104,898)</b>                          | <b>(3,214,418)</b> | (177,452)                                      | (2,205,520)                                 | (2,382,972)      |
| <b>Gross profit</b>                                                            |                   | <b>244,689</b>                                 | <b>177,899</b>                              | <b>422,588</b>     | 362,372                                        | 176,514                                     | 538,886          |
| Administrative and general expenses                                            | 6                 |                                                |                                             | <b>(165,282)</b>   |                                                |                                             | (134,104)        |
| Financial income and expense (net)                                             | 7                 |                                                |                                             | <b>(106,519)</b>   |                                                |                                             | (74,064)         |
| Gain on valuation of investment properties                                     | 12 (iii) and (iv) |                                                |                                             | <b>880,114</b>     |                                                |                                             | 307,521          |
| Gain on sale of investment properties                                          | 12 (ii)           |                                                |                                             | <b>153,930</b>     |                                                |                                             | -                |
| Provision for contracting related activities                                   | 8                 |                                                |                                             | <b>(500,000)</b>   |                                                |                                             | -                |
| Other income                                                                   | 9                 |                                                |                                             | <b>20,154</b>      |                                                |                                             | 7,965            |
| Share of profit in joint ventures                                              | 33 (a) and (b)    |                                                |                                             | <b>58,115</b>      |                                                |                                             | 38,227           |
| <b>Net profit for the year attributable to the shareholders of the Company</b> |                   |                                                |                                             | <b>763,100</b>     |                                                |                                             | 684,431          |
|                                                                                |                   |                                                |                                             | <b>=====</b>       |                                                |                                             | <b>=====</b>     |
| <b>Basic and diluted earnings per share (AED)</b>                              | 37                |                                                |                                             | <b>0.25</b>        |                                                |                                             | 0.22             |

The notes on pages 8 to 48 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 2008

|                                                                     | Note         | 2008<br>AED'000   | 2007<br>AED'000   |
|---------------------------------------------------------------------|--------------|-------------------|-------------------|
| <b>Assets</b>                                                       |              |                   |                   |
| <b>Non-current assets</b>                                           |              |                   |                   |
| Intangible assets                                                   | 10           | 40,776            | 40,776            |
| Property, plant and equipment                                       | 11           | 151,270           | 375,867           |
| Investment properties                                               | 12           | 3,278,662         | 2,814,043         |
| Development properties                                              | 13           | 11,831,575        | 3,992,911         |
| Investment in joint ventures                                        | 33 (a) & (b) | 373,020           | 221,905           |
| Long-term receivables                                               | 14           | 203,265           | 289,440           |
|                                                                     |              | <b>15,878,568</b> | <b>7,734,942</b>  |
| <b>Current assets</b>                                               |              |                   |                   |
| Investment in marketable securities                                 | 15           | 6,401             | 13,217            |
| Inventories                                                         | 16           | 118,299           | 101,171           |
| Contract work-in-progress                                           | 17           | 185,224           | 217,208           |
| Trade and other receivables                                         | 18           | 2,773,061         | 2,936,364         |
| Due from related parties                                            | 19           | 7,949             | 7,082             |
| Cash in hand and at bank                                            | 20           | 250,791           | 88,330            |
|                                                                     |              | <b>3,341,725</b>  | <b>3,363,372</b>  |
| <b>Total assets</b>                                                 |              | <b>19,220,293</b> | <b>11,098,314</b> |
| <b>Equity and liabilities</b>                                       |              |                   |                   |
| <b>Capital and reserves</b>                                         |              |                   |                   |
| Share capital                                                       | 28           | 3,060,779         | 2,782,526         |
| Treasury shares                                                     | 28           | (4,998)           | (4,998)           |
| Proposed bonus shares                                               | 28           | 306,078           | -                 |
| Statutory reserve                                                   | 29           | 1,467,573         | 1,391,263         |
| General reserve                                                     | 29           | 313,697           | 237,387           |
| Hedging reserve                                                     | 30           | (4,058)           | (3,354)           |
| Revaluation surplus                                                 | 31           | 39,507            | 39,507            |
| Retained earnings                                                   |              | 801,750           | 782,481           |
| <b>Total equity attributable to the shareholders of the Company</b> |              | <b>5,980,328</b>  | <b>5,224,812</b>  |
| <b>Non-current liabilities</b>                                      |              |                   |                   |
| Long-term bank loans                                                | 24           | 2,078,337         | 2,193,667         |
| Advances from sale of properties                                    |              | 2,574,364         | 656,175           |
| Deferred income                                                     | 25           | 35,438            | 37,688            |
| Long-term payables                                                  | 26           | 82,586            | 70,249            |
| Provision for staff terminal benefits                               | 27           | 85,757            | 55,423            |
|                                                                     |              | <b>4,856,482</b>  | <b>3,013,202</b>  |
| <b>Current liabilities</b>                                          |              |                   |                   |
| Trade and other payables                                            | 21           | 3,665,217         | 1,304,760         |
| Advances and deposits                                               | 22           | 380,522           | 365,025           |
| Due to related parties                                              | 19           | 5,537             | 5,590             |
| Short-term bank borrowings                                          | 23           | 1,816,363         | 1,109,122         |
| Current portion of long-term bank loans                             | 24           | 2,515,844         | 75,803            |
|                                                                     |              | <b>8,383,483</b>  | <b>2,860,300</b>  |
| <b>Total liabilities</b>                                            |              | <b>13,239,965</b> | <b>5,873,502</b>  |
| <b>Total equity and liabilities</b>                                 |              | <b>19,220,293</b> | <b>11,098,314</b> |

The notes on pages 8 to 48 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated statement of cash flows

for the year ended 31 December 2008

|                                                              |              | 2008               | 2007             |
|--------------------------------------------------------------|--------------|--------------------|------------------|
|                                                              | Note         | AED'000            | AED'000          |
| <b>Operating activities</b>                                  |              |                    |                  |
| Net profit for the year                                      |              | 763,100            | 684,431          |
| Adjustments for:                                             |              |                    |                  |
| Depreciation                                                 | 11           | 53,887             | 38,099           |
| Accrual made for Directors' fees                             | 21 & 35      | (4,000)            | (4,000)          |
| Share of profit in joint ventures                            | 33 (a) & (b) | (58,115)           | (38,227)         |
| Gain on disposal of property, plant and equipment            | 9            | (157)              | (1,203)          |
| Gain on fair valuation of investment properties              | 12           | (880,114)          | (307,521)        |
| Gain on sale of investment properties                        | 12           | (153,930)          | -                |
| Provision for contracting related activities                 | 8            | 500,000            | -                |
| Income from government grant                                 | 9            | (2,250)            | (2,250)          |
| Financial income and expense (net)                           | 7            | 106,519            | 74,064           |
|                                                              |              | -----              | -----            |
| Operating cash flow before working capital changes           |              | 324,940            | 443,393          |
| Change in trade and other receivables                        |              | (362,208)          | (1,171,530)      |
| Change in inventories                                        |              | (17,128)           | (45,810)         |
| Change in contract work-in-progress                          |              | 31,984             | 283,028          |
| Change in long-term receivables                              |              | 77,855             | (164,218)        |
| Change in due from related parties                           |              | (867)              | 13,377           |
| Change in trade and other payables                           |              | 2,359,753          | 29,724           |
| Change in due to related parties                             |              | (53)               | 2,574            |
| Change in long-term payable                                  |              | 12,337             | 7,989            |
| Change in advances and deposits                              |              | 15,497             | 624,424          |
| Change in employees' terminal benefits (net)                 |              | 30,334             | 17,658           |
| Directors' fees paid                                         |              | (2,880)            | (2,880)          |
|                                                              |              | -----              | -----            |
| Cash flows from operating activities                         |              | 2,469,564          | 37,729           |
|                                                              |              | -----              | -----            |
| <b>Investing activities</b>                                  |              |                    |                  |
| Additions to property, plant and equipment                   | 11           | (41,666)           | (49,121)         |
| Additions to investment properties                           | 12           | (24,575)           | (108,690)        |
| Additions to development properties (net)                    | 13           | (7,626,872)        | (1,987,025)      |
| Proceeds from disposal of property, plant and equipment      |              | 741                | 3,262            |
| Proceeds from disposal of investment properties              | 12 (ii)      | 594,000            | -                |
| Proceeds received on maturity of investment                  |              | -                  | 52,399           |
| Interest received                                            | 7            | 1,337              | 5,322            |
| Dividend income                                              | 7            | 160                | 228              |
| Purchase of investments at fair value through profit or loss | 15           | (1,476)            | (1,728)          |
| Investment in a joint venture                                |              | (93,000)           | (37,401)         |
|                                                              |              | -----              | -----            |
| Cash used in investing activities                            |              | (7,191,351)        | (2,122,754)      |
|                                                              |              | -----              | -----            |
| <b>Financing activities</b>                                  |              |                    |                  |
| Term loans obtained                                          |              | 2,422,490          | 1,649,805        |
| Net movement in trust receipts                               |              | (234,993)          | 196,075          |
| Net movement in short-term loans                             |              | (150,000)          | (51,263)         |
| Repayment of term loans                                      |              | (97,779)           | (74,178)         |
| Interest paid                                                |              | (65,893)           | (70,962)         |
| Change in advances from sale of properties                   |              | 1,918,189          | 197,383          |
|                                                              |              | -----              | -----            |
| Cash flow from financing activities                          |              | 3,792,014          | 1,846,860        |
|                                                              |              | -----              | -----            |
| <b>Net decrease in cash and cash equivalents</b>             |              | <b>(929,773)</b>   | <b>(238,165)</b> |
| Cash and cash equivalents at the beginning of the year       |              | (597,346)          | (359,181)        |
|                                                              |              | -----              | -----            |
| <b>Cash and cash equivalents at the end of the year</b>      | 36           | <b>(1,527,119)</b> | <b>(597,346)</b> |
|                                                              |              | =====              | =====            |

The notes on pages 8 to 48 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 2008

|                                                                           | Share<br>capital<br>AED'000 | Treasury<br>shares<br>AED'000 | Proposed<br>bonus<br>shares<br>AED'000 | Statutory<br>reserve<br>AED'000 | General<br>reserve<br>AED'000 | Hedging<br>reserve<br>AED'000 | Revaluation<br>surplus<br>AED'000 | Retained<br>earnings<br>AED'000 | Total<br>AED'000 |
|---------------------------------------------------------------------------|-----------------------------|-------------------------------|----------------------------------------|---------------------------------|-------------------------------|-------------------------------|-----------------------------------|---------------------------------|------------------|
| 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        |
| Transfer of hedging reserve<br>to income statement (refer notes 7 and 30) | -                           | -                             | -                                      | -                               | -                             | (2,441)                       | -                                 | -                               | (2,441)          |
| Net movement in unrealised loss<br>on cash flow hedge                     | -                           | -                             | -                                      | -                               | -                             | (3,354)                       | -                                 | -                               | (3,354)          |
| Net expense recognized directly<br>in equity                              | -                           | -                             | -                                      | -                               | -                             | (5,795)                       | -                                 | -                               | (5,795)          |
| Net profit for the year                                                   | -                           | -                             | -                                      | -                               | -                             | -                             | -                                 | 684,431                         | 684,431          |
| Total recognized income and<br>expense                                    | -                           | -                             | -                                      | -                               | -                             | (5,795)                       | -                                 | 684,431                         | 678,636          |
| Bonus shares issued                                                       | 556,505                     | -                             | (556,505)                              | -                               | -                             | -                             | -                                 | -                               | -                |
| Directors' fees (refer note 35)                                           | -                           | -                             | -                                      | -                               | -                             | -                             | -                                 | (6,880)                         | (6,880)          |
| Transfer to statutory reserve (refer note 29)                             | -                           | -                             | -                                      | 13,585                          | -                             | -                             | -                                 | (13,585)                        | -                |
| Transfer to general reserve (refer note 29)                               | -                           | -                             | -                                      | -                               | 68,443                        | -                             | -                                 | (68,443)                        | -                |
| At 31 December 2007                                                       | 2,782,526                   | (4,998)                       | -                                      | 1,391,263                       | 237,387                       | (3,354)                       | 39,507                            | 782,481                         | 5,224,812        |

# Union Properties Public Joint Stock Company and its subsidiaries

## Consolidated statement of changes in equity (continued)

for the year ended 31 December 2008

|                                                                              | Share<br>capital<br>AED'000 | Treasury<br>shares<br>AED'000 | Proposed<br>bonus<br>shares<br>AED'000 | Statutory<br>reserve<br>AED'000 | General<br>reserve<br>AED'000 | Hedging<br>reserve<br>AED'000 | Revaluation<br>surplus<br>AED'000 | Retained<br>earnings<br>AED'000 | Total<br>AED'000 |
|------------------------------------------------------------------------------|-----------------------------|-------------------------------|----------------------------------------|---------------------------------|-------------------------------|-------------------------------|-----------------------------------|---------------------------------|------------------|
| At 1 January 2008                                                            | 2,782,526                   | (4,998)                       | -                                      | 1,391,263                       | 237,387                       | (3,354)                       | 39,507                            | 782,481                         | 5,224,812        |
| Net movement in unrealised loss<br>on cash flow hedge (refer notes 7 and 30) | -                           | -                             | -                                      | -                               | -                             | (704)                         | -                                 | -                               | (704)            |
| Net expense recognized directly<br>in equity                                 | -                           | -                             | -                                      | -                               | -                             | (704)                         | -                                 | -                               | (704)            |
| Net profit for the year                                                      | -                           | -                             | -                                      | -                               | -                             | -                             | -                                 | 763,100                         | 763,100          |
| Total recognized income and<br>expense                                       | -                           | -                             | -                                      | -                               | -                             | (704)                         | -                                 | 763,100                         | 762,396          |
| Bonus shares issued                                                          | 278,253                     | -                             | -                                      | -                               | -                             | -                             | -                                 | (278,253)                       | -                |
| Proposed bonus shares (refer note 28)                                        | -                           | -                             | 306,078                                | -                               | -                             | -                             | -                                 | (306,078)                       | -                |
| Directors' fees (refer note 35)                                              | -                           | -                             | -                                      | -                               | -                             | -                             | -                                 | (6,880)                         | (6,880)          |
| Transfer to statutory reserve (refer note 29)                                | -                           | -                             | -                                      | 76,310                          | -                             | -                             | -                                 | (76,310)                        | -                |
| Transfer to general reserve (refer note 29)                                  | -                           | -                             | -                                      | -                               | 76,310                        | -                             | -                                 | (76,310)                        | -                |
| <b>At 31 December 2008</b>                                                   | <b>3,060,779</b>            | <b>(4,998)</b>                | <b>306,078</b>                         | <b>1,467,573</b>                | <b>313,697</b>                | <b>(4,058)</b>                | <b>39,507</b>                     | <b>801,750</b>                  | <b>5,980,328</b> |

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.

The notes on pages 8 to 48 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 Company’s registered office address is PO Box 24649, Dubai, United Arab Emirates (“UAE”).

The principal activities of the Company are investment in and development of properties, the management and maintenance of 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 32.

The Company and its subsidiaries are collectively referred to as “the Group”. All of the Group’s significant business and investment activities in securities, properties, land and financial derivatives are carried out within the UAE. The Group does not have significant foreign currency exposure.

### **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 (“IFRS”) 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, investment in marketable securities and derivative instruments 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 IFRS 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 41.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

## 2 Basis of preparation *(continued)*

### Financial commitments

The Group has net current liabilities of AED 5,041.8 million which include short-term bank borrowings amounting to AED 1,816.4 million and current portion of long-term bank loans amounting to AED 2,515.8 million. The Group's management expect, per the Group's cash flow projections, that projects to be completed in 2009 will be profitable and continued profits from the Group's existing core businesses would enable it to meet its short term financial commitments.

## 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 32.

### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, 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

Jointly controlled entities are entities over whose activities the Group has joint control, established by contractual agreement. Investment in jointly controlled entities 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 jointly controlled entities. Goodwill attributable to investment in jointly controlled entities is included as part of the carrying value of investment in joint ventures. Dividends are reduced from the carrying amount of the investment when declared.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### (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 venturers themselves. Each venturer 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 venturers. 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.

The details of the Group's share in the revenue, expenses, assets and liabilities of the jointly controlled operations included in the consolidated financial statements on a line-by-line basis are set out in note 33(c), 33(d) and 33(e).

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 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 or joint venture at the date of acquisition is recorded as goodwill. Goodwill attributable to investment in joint ventures is included as part of the carrying value of investment in joint ventures. Goodwill attributable to subsidiaries is disclosed as goodwill in 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 intangible assets

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 consolidated income statement as an expense as incurred.

Subsequent expenditure on intangible assets is capitalized 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 amortized from the date they are available for use.

# 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 (refer below) and impairment losses (refer accounting policy on impairment), if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads.

Depreciation is recognized in the consolidated income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment at the following annual rates:

| <b>Assets</b>                            | <b>Rate (%)</b> |
|------------------------------------------|-----------------|
| 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        |

Land is not depreciated.

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

### Capital work in progress

Capital work in progress is stated at cost less accumulated impairment losses, if any, until the construction is complete. Upon completion of construction, the cost of such asset together with the cost directly attributable to construction, including borrowing costs capitalized are transferred to the respective class of asset under construction. No depreciation is charged on capital work in progress.

### 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. Subsequent to initial recognition, investment properties are accounted for 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 consolidated income statement.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### Investment properties (continued)

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 consolidated 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.

#### 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.

#### Financial instruments

##### (i) Non derivative financial instruments

Non-derivative financial instruments comprise long-term receivables, investment in marketable securities, trade and other receivables, amounts due from related parties, cash in hand and at bank, trade and other payables, security deposits, amounts due to related parties, short-term bank borrowings, long-term bank loans and long-term payables.

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.

##### *Investments at fair value through profit or loss*

An instrument 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 the consolidated income statement 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 amortized cost using the effective interest method less impairment losses, if any.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### Financial instruments

#### (i) Non derivative financial instruments

Cash and cash equivalents comprise cash in hand and at bank in current accounts, fixed deposit accounts and margin deposit accounts. Bank borrowings with an original maturity of three months or less and bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

#### (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 another 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.

#### 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 amortized 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 Group's non-financial assets 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.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### **Inventories**

Inventories are valued at the lower of cost and net realizable value. 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. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### **Contract work-in-progress/billings in excess of valuations**

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 balance sheet date.

### **Provision**

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

### **Revenue**

Revenue comprises amounts derived from the letting of investment properties, proceeds from sale of real estate properties (including sale of plots of land), value of work done and amounts invoiced to third parties for the sale of goods and services falling within the Group's ordinary activities, after deduction of trade discounts given in the ordinary course of business.

### **Revenue recognition**

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

Revenue from sale of goods is recognized in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the consolidated 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.

Revenue from sale of properties on a 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 the associated price risk is transferred to the buyer upon signing of the contract agreement and the buyer has been granted access to the property.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes *(continued)*

### **3 Significant accounting policies (continued)**

#### **Revenue recognition (continued)**

##### **(ii) Contracting**

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the consolidated income statement in proportion to the stage of completion of the contract. The estimated final gross margin is applied to costs to arrive at the margin on the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Provision is made for all losses incurred to the balance sheet 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 consolidated 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 consolidated income statement as revenue when the grant becomes receivable. Any other government grant is recognized in the consolidated 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.

#### **Finance income and expenses**

Finance income comprises interest income on fixed deposits, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in the consolidated income statement, using the effective interest method. Dividend income is recognized in the consolidated 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 and impairment losses recognized on financial assets. All borrowing costs, except to the extent that they are capitalised in accordance with the paragraph below, are recognized in the consolidated income statement using the effective interest method.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes *(continued)*

### **3 Significant accounting policies (continued)**

#### **Finance income and expenses (continued)**

Borrowing costs directly attributable to the acquisition or construction of development property are capitalized 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.

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

#### **Foreign currency transactions**

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 consolidated income statement.

#### **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 Group 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.

#### **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's internal reporting structure.

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

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

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (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 2008, and have not been applied in preparing these consolidated financial statements. With particular reference to the Group are:

- 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 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 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group’s 2009 consolidated financial statements, is not expected to have a significant impact on the presentation of the consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the income statement. The amendments to IAS 27, which become mandatory for the Group’s 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize 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 capitalizes 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 and capital 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.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 4 Financial risk management and capital management (continued)

#### 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 and other receivables (including long-term receivables), investment in marketable securities, amounts due to related parties and cash at bank. The exposure to credit risk on trade and other receivables and amounts due to related parties 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 repute.

#### *Trade and other receivables*

For real estate property sales for general public, the credit risk for the Group is minimised by the fact that the Group receives advances from buyers towards these sales and balance amount due becomes receivable upon handover of the property. 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 and does not transfer the legal title of the property unit to the customer until the full amount has been paid. Furthermore, the risk of financial loss to the Group on account of customer default is low as the property title acts as collateral.

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, 27% percent of the Group's contract revenue and 63% of the Group's contract receivables 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 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 corporate guarantees only on behalf of wholly-owned subsidiaries or 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 38.

#### 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 relates to trade and other payables, security deposits, amounts due to related parties, short-term bank borrowings, long-term bank loans and long-term payables. 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 and capital management *(continued)*

### **Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices and currency rates 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.

#### *Equity risk*

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

#### *Interest rate risk*

The interest rate on the Group's financial instruments is based on normal commercial rates. The Group has entered into interest rate swaps to minimise its exposure to changes in interest rates on certain long-term bank loans.

#### *Currency risk*

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

### **Capital management**

The Board of Director's policy is to maintain a strong capital base so as to maintain creditors, customers and market confidence and to sustain future development of the business. The Board of Directors' would monitor the return on capital and level of dividends based upon profits earned by the Group during the year. There were no changes in the Group's approach to capital management during the year.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 5 Revenue and direct costs

### A. Property management and sales

|                     | Property<br>rentals<br>AED'000 | Property<br>sales<br>AED'000 | Total<br>AED'000 |
|---------------------|--------------------------------|------------------------------|------------------|
| <b>2008</b>         |                                |                              |                  |
| Revenues            | 180,250                        | 173,959                      | 354,209          |
| Direct costs        | (37,543)                       | (71,977)                     | (109,520)        |
|                     | =====                          | =====                        | =====            |
| <b>Gross profit</b> | <b>142,707</b>                 | <b>101,982</b>               | <b>244,689</b>   |
|                     | =====                          | =====                        | =====            |
| <b>2007</b>         |                                |                              |                  |
| Revenues            | 192,456                        | 347,368                      | 539,824          |
| Direct costs        | (36,008)                       | (141,444)                    | (177,452)        |
|                     | =====                          | =====                        | =====            |
| <b>Gross profit</b> | <b>156,448</b>                 | <b>205,924</b>               | <b>362,372</b>   |
|                     | =====                          | =====                        | =====            |

### B. Other operating activities

|                     | Contracting<br>AED'000 | Hospitality<br>AED'000 | Others<br>AED'000 | Total<br>AED'000 |
|---------------------|------------------------|------------------------|-------------------|------------------|
| <b>2008</b>         |                        |                        |                   |                  |
| Revenues            | 3,106,939              | 46,692                 | 129,166           | 3,282,797        |
| Direct costs        | (2,862,370)            | (19,930)               | (222,598)         | (3,104,898)      |
|                     | =====                  | =====                  | =====             | =====            |
| <b>Gross profit</b> | <b>244,569</b>         | <b>26,762</b>          | <b>(93,432)</b>   | <b>177,899</b>   |
|                     | =====                  | =====                  | =====             | =====            |
| <b>2007</b>         |                        |                        |                   |                  |
| Revenues            | 2,245,207              | 42,074                 | 94,753            | 2,382,034        |
| Direct costs        | (2,103,616)            | (17,300)               | (84,604)          | (2,205,520)      |
|                     | =====                  | =====                  | =====             | =====            |
| <b>Gross profit</b> | <b>141,591</b>         | <b>24,774</b>          | <b>10,149</b>     | <b>176,514</b>   |
|                     | =====                  | =====                  | =====             | =====            |

The above costs include finance costs amounting to AED 13.8 million (2007: AED 8.8 million), staff costs amounting to AED 569.2 million (2007: AED 419.1 million) and depreciation amounting to AED 33.2 million (2007: AED 30.4 million). It does not include the charge for the provision related to contracting related activities as discussed in note 8.

## 6 Administrative and general expenses

|                                     | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------------------|-----------------|-----------------|
| <i>These include the following:</i> |                 |                 |
| Staff costs                         | 79,431          | 58,059          |
| Marketing and advertising expenses  | 31,697          | 24,837          |
| Depreciation                        | 20,725          | 7,700           |
|                                     | =====           | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 7 Financial income and expense (net)

#### Recognized in the consolidated income statement

|                                                                                                      | 2008<br>AED'000  | 2007<br>AED'000 |
|------------------------------------------------------------------------------------------------------|------------------|-----------------|
| Interest income                                                                                      | 1,337            | 5,322           |
| Gain on termination of interest rate swap contracts<br>(refer note 30)                               | -                | 2,441           |
| Dividend income on financial assets at fair value<br>through profit or loss                          | 160              | 228             |
| Net change in fair value of financial assets at fair value<br>through profit or loss (refer note 15) | -                | 2,907           |
|                                                                                                      | -----            | -----           |
| <b>Financial income</b>                                                                              | <b>1,497</b>     | <b>10,898</b>   |
|                                                                                                      | -----            | -----           |
| Interest expense on financial liabilities                                                            | (65,893)         | (70,962)        |
| Net change in fair value of financial assets at fair value<br>through profit or loss (refer note 15) | (8,292)          | -               |
| Change in the fair value of long-term retention<br>receivables (refer note 14)                       | (8,320)          | -               |
| Provision for doubtful debts on contract and trade receivables<br>(refer note 40(a))                 | (25,511)         | (14,000)        |
|                                                                                                      | -----            | -----           |
| <b>Financial expense</b>                                                                             | <b>(108,016)</b> | <b>(84,962)</b> |
|                                                                                                      | -----            | -----           |
| <b>Financial income and expense recognized in the<br/>consolidated income statement (net)</b>        | <b>(106,519)</b> | <b>(74,064)</b> |
|                                                                                                      | =====            | =====           |

#### Recognized directly in equity

|                                                                                                                |       |         |
|----------------------------------------------------------------------------------------------------------------|-------|---------|
| Effective portion of changes in fair value of cash flow hedge<br>recognized in hedging reserve (refer note 30) | (704) | (3,354) |
|                                                                                                                | ===   | =====   |

### 8 Provision for contracting related activities

The Group's business segments primarily relate to investment in and development of properties and contracting activities in the UAE. During the latter part of the year, due to global economic crisis faced across the world, the real estate sector and the construction industry in the UAE has witnessed an increasingly difficult operating credit and liquidity issues.

This could potentially affect the ability of the Group's contracting related activities to recover fully certain receivables on work done and certified and work done yet to be certified. Accordingly, a provision for an amount of AED 500 million has been created for contract receivables to mitigate any potential losses which may be incurred in future. Also refer note 18.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 9 Other income

|                                                   | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------------------------------|-----------------|-----------------|
| Gain on disposal of property, plant and equipment | 157             | 1,203           |
| Miscellaneous income                              | 17,747          | 4,512           |
| Income from government grant (refer note 25)      | 2,250           | 2,250           |
|                                                   | -----           | -----           |
|                                                   | 20,154          | 7,965           |
|                                                   | =====           | =====           |

## 10 Intangible assets

|                                       | Goodwill<br>AED'000 | Other<br>intangible assets<br>AED'000 | Total<br>AED'000 |
|---------------------------------------|---------------------|---------------------------------------|------------------|
| <b>Cost</b>                           |                     |                                       |                  |
| Balance at 1 January 2007             | 2,838               | 40,481                                | 43,319           |
|                                       | -----               | -----                                 | -----            |
| Balance at 31 December 2007           | 2,838               | 40,481                                | 43,319           |
|                                       | -----               | -----                                 | -----            |
| Balance at 1 January 2008             | 2,838               | 40,481                                | 43,319           |
|                                       | -----               | -----                                 | -----            |
| Balance at 31 December 2008           | 2,838               | 40,481                                | 43,319           |
|                                       | -----               | -----                                 | -----            |
| <b>Amortization/impairment losses</b> |                     |                                       |                  |
| Balance at 1 January 2007             | 2,543               | -                                     | 2,543            |
|                                       | -----               | ---                                   | -----            |
| Balance at 31 December 2007           | 2,543               | -                                     | 2,543            |
|                                       | -----               | ---                                   | -----            |
| Balance at 1 January 2008             | 2,543               | -                                     | 2,543            |
|                                       | -----               | ---                                   | -----            |
| Balance at 31 December 2008           | 2,543               | -                                     | 2,543            |
|                                       | -----               | ---                                   | -----            |
| <b>Carrying amount</b>                |                     |                                       |                  |
| <b>At 31 December 2008</b>            | <b>295</b>          | <b>40,481</b>                         | <b>40,776</b>    |
|                                       | ===                 | =====                                 | =====            |
| At 31 December 2007                   | 295                 | 40,481                                | 40,776           |
|                                       | ===                 | =====                                 | =====            |

- (i) Other intangible assets 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 trademarks 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 amortized over a period of 10 years commencing on the launch of the Formula One Theme Park project.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 11 Property, plant and equipment

|                                                                | Balance at<br>beginning<br>of the year<br>AED'000 | Additions/<br>charge<br>AED'000 | Transfers<br>in/(out)<br>AED'000 | Disposals<br>AED'000 | Balance at<br>end of the<br>year<br>AED'000 |
|----------------------------------------------------------------|---------------------------------------------------|---------------------------------|----------------------------------|----------------------|---------------------------------------------|
| <b>2008</b>                                                    |                                                   |                                 |                                  |                      |                                             |
| <b>Cost</b>                                                    |                                                   |                                 |                                  |                      |                                             |
| Land                                                           | 39,288                                            | -                               | -                                | -                    | 39,288                                      |
| Buildings and leasehold improvements<br>(refer note (i) below) | 355,545                                           | 4                               | (299,335)                        | -                    | 56,214                                      |
| Plant and machinery                                            | 25,004                                            | 9,428                           | -                                | -                    | 34,432                                      |
| Furniture, fixtures and office equipment                       | 82,963                                            | 15,261                          | 3,667                            | (1,497)              | 100,394                                     |
| Motor vehicles                                                 | 44,645                                            | 11,304                          | 18                               | (1,201)              | 54,766                                      |
| Gymnasium equipment                                            | 1,506                                             | 40                              | -                                | (19)                 | 1,527                                       |
| Equipment and tools                                            | 3,135                                             | 1,108                           | 8                                | -                    | 4,251                                       |
| Capital work-in-progress                                       | 2,876                                             | 4,521                           | (3,693)                          | -                    | 3,704                                       |
|                                                                | 554,962                                           | 41,666                          | (299,335)                        | (2,717)              | 294,576                                     |
| <b>Accumulated depreciation</b>                                |                                                   |                                 |                                  |                      |                                             |
| Buildings and leasehold improvements<br>(refer note (i) below) | 61,900                                            | 16,772                          | (47,543)                         | -                    | 31,129                                      |
| Plant and machinery                                            | 11,420                                            | 2,168                           | -                                | -                    | 13,588                                      |
| Furniture, fixtures and office equipment                       | 49,916                                            | 21,529                          | -                                | (1,177)              | 70,268                                      |
| Motor vehicles                                                 | 13,131                                            | 12,829                          | -                                | (942)                | 25,018                                      |
| Gymnasium equipment                                            | 1,251                                             | 46                              | -                                | (14)                 | 1,283                                       |
| Equipment and tools                                            | 1,477                                             | 543                             | -                                | -                    | 2,020                                       |
|                                                                | 139,095                                           | 53,887                          | (47,543)                         | (2,133)              | 143,306                                     |
| <b>Book value</b>                                              | <b>415,867</b>                                    |                                 |                                  |                      | <b>151,270</b>                              |
| Less: Impairment provision (note (i) below)                    | (40,000)                                          |                                 | 40,000                           |                      | -                                           |
| <b>Net book value</b>                                          | <b>375,867</b>                                    |                                 | <b>40,000</b>                    |                      | <b>151,270</b>                              |
| <b>2007</b>                                                    |                                                   |                                 |                                  |                      |                                             |
| <b>Cost</b>                                                    |                                                   |                                 |                                  |                      |                                             |
| 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                                     |
| <b>Accumulated depreciation</b>                                |                                                   |                                 |                                  |                      |                                             |
| 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                                     |
| <b>Book value</b>                                              | <b>406,904</b>                                    |                                 |                                  |                      | <b>415,867</b>                              |
| Less: Impairment provision (note (i) below)                    | (40,000)                                          |                                 |                                  |                      | (40,000)                                    |
| <b>Net book value</b>                                          | <b>366,904</b>                                    |                                 |                                  |                      | <b>375,867</b>                              |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 11 Property, plant and equipment (continued)

- (i) 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 reassessed the use of the Autodrome. The Autodrome has been constructed within the Motorcity project. Apart from the general public, the main beneficiaries of the Autodrome would be the residents of the Motorcity project. In view of the above, the Board of Directors have resolved to transfer the book value of the Autodrome amounting to AED 211.8 million (net of impairment provision of AED 40 million) to development properties for the Motorcity project and apportion the cost over the expected units to be sold and units being constructed as investment property in the Motorcity project. As and when the units are sold or valued for the investment properties units, the apportioned costs would be fully charged off to the consolidated income statement as cost of sales or to investment properties.

### 12 Investment properties

|                                                           | 2008<br>AED'000 | 2007<br>AED'000 |
|-----------------------------------------------------------|-----------------|-----------------|
| Balance at 1 January                                      | 2,814,043       | 2,629,039       |
| Additions during the year                                 | 24,575          | 108,690         |
| Gain on fair valuation (refer notes (iii) and (iv) below) | 880,114         | 307,521         |
| Transfer to development properties (refer note 13)        | -               | (231,207)       |
| Sale of investment properties (refer note (ii) below)     | (440,070)       | -               |
|                                                           | -----           | -----           |
| Balance at 31 December                                    | 3,278,662       | 2,814,043       |
|                                                           | =====           | =====           |
| <i>Investment properties comprise:</i>                    |                 |                 |
| Freehold land and buildings                               | 3,208,662       | 2,749,043       |
| Buildings on leasehold land                               | 70,000          | 65,000          |
|                                                           | =====           | =====           |

- (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.
- (ii) During the current year, the Group has sold two of its investment properties for a consideration of AED 594.0 million (net of brokerage fees of AED 6.0 million) resulting in a gain of AED 153.9 million.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 12 Investment properties (continued)

- (iii) At 31 December 2008, the Group has obtained and recorded fair values for its investment properties, based on open market valuation carried out by an independent registered valuator, Cluttons, unless otherwise stated (refer note (iv) below). This has resulted in a net gain on valuation of investment properties of AED 624.9 million (2007: AED 228.2 million), which is included in the consolidated income statement.

Furthermore, during the previous year, certain plots of land within Motorcity were valued by management based on the minimum lease payments for those leased on a long term basis and the sale price of neighbouring plots. Certain plots of land were retained by management for development of retail areas to be used in future as an investment property. The net gain on properties internally valued by management, based on the above, amounting to AED 79.3 million was included in the consolidated income statement of the previous year. Management has obtained fair values for these plots of land as at the reporting date and a further valuation gain on these properties amounting to AED 47.2 million has been included in the consolidated income statement of the current year.

- (iv) Subsequent to the balance sheet date, the Company has sold one of its properties at net consideration of AED 588 million, which is used as the basis for valuing this property at balance sheet date.

Also refer note 42(ii).

- (v) 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.

### 13 Development properties

|                                                                   | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------------------------------------------------|-----------------|-----------------|
| Balance at 1 January                                              | 3,992,911       | 1,774,679       |
| Additions during the year                                         | 7,671,414       | 2,113,166       |
| Transfer from property, plant and equipment<br>(refer note 11(i)) | 211,792         | -               |
| Transfer from investment properties (refer note 12)               | -               | 231,207         |
| Sales of properties                                               | (44,542)        | (126,141)       |
|                                                                   | -----           | -----           |
| Balance at 31 December                                            | 11,831,575      | 3,992,911       |
|                                                                   | =====           | =====           |
| <i>The cost of development properties comprise:</i>               |                 |                 |
| Construction cost                                                 | 7,936,990       | 2,768,099       |
| Land cost (refer note 21)                                         | 3,703,001       | 1,165,776       |
| Interest capitalised                                              | 191,584         | 59,036          |
|                                                                   | -----           | -----           |
|                                                                   | 11,831,575      | 3,992,911       |
|                                                                   | =====           | =====           |

- (i) Development properties include trading properties amounting to AED 29.9 million (2007: AED 74.5 million).

Also refer notes 42(ii) and 42(iii).

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 14 Long-term receivables

|                                                                                                      | 2008<br>AED'000 | 2007<br>AED'000 |
|------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Long-term property sales receivables                                                                 | 125,067         | 137,646         |
| Long-term retention receivables                                                                      | 85,649          | 150,944         |
| Less: difference between fair value and face value of long-term retention receivables (refer note 7) | (8,320)         | -               |
| Other long-term receivables                                                                          | 869             | 850             |
|                                                                                                      | -----           | -----           |
|                                                                                                      | 203,265         | 289,440         |
|                                                                                                      | =====           | =====           |

The Group's exposure to credit risks and impairment losses related to loans and receivables are disclosed in note 40(a).

### 15 Investment in marketable securities

|                                                | 2008<br>AED'000 | 2007<br>AED'000 |
|------------------------------------------------|-----------------|-----------------|
| Balance at 1 January                           | 13,217          | 60,981          |
| Purchase of investments during the year        | 1,476           | 1,728           |
| Disposal of investments during the year        | -               | (52,399)        |
| (Loss)/gain on revaluation to fair value (net) | (8,292)         | 2,907           |
|                                                | -----           | -----           |
| Balance at 31 December                         | 6,401           | 13,217          |
|                                                | =====           | =====           |

- (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 value loss of AED 8.3 million (2007: fair value gain of AED 2.9 million) has been recognized in the consolidated income statement (also refer note 7).
- (ii) The Group has also invested AED 4.5 million in a real estate fund. The amount invested forms three capital calls to the extent of 90% 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 2008.
- (iii) During the previous year, the Group sold its investment in certain structured deposits at a value of AED 52.4 million.
- (iv) The Group's exposure to credit risks and impairment losses related to investment in marketable securities are disclosed in note 40(a).

#### 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 0.6 million (2007: AED 1.3 million); an equal change in the opposite direction would have decreased the fair value of the securities by AED 0.6 million (2007: AED 1.3 million). The analysis is performed on the same basis for 2007.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

## 16 Inventories

|                                           | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------------------------|-----------------|-----------------|
| Stock in trade                            | 28,573          | 25,271          |
| Project related material                  | 81,989          | 50,451          |
| Spares and consumables                    | 7,943           | 9,431           |
| Less: provision for slow moving materials | (787)           | (3,831)         |
|                                           | -----           | -----           |
|                                           | 117,718         | 81,322          |
| Goods in transit                          | 581             | 19,849          |
|                                           | -----           | -----           |
|                                           | 118,299         | 101,171         |
|                                           | =====           | =====           |

## 17 Contract work-in-progress/billings in excess of valuation

|                                                         | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------------------------------------|-----------------|-----------------|
| Costs plus attributable profit less foreseeable losses  | 2,695,705       | 324,590         |
| Less: progress billings                                 | (2,783,772)     | (232,927)       |
|                                                         | -----           | -----           |
|                                                         | (88,067)        | 91,663          |
|                                                         | =====           | =====           |
| Disclosed in the consolidated balance sheet as follows: |                 |                 |
| Contract work in progress                               | 185,224         | 217,208         |
| Billings in excess of valuation (refer note 21)         | (273,291)       | (125,545)       |
|                                                         | -----           | -----           |
|                                                         | (88,067)        | 91,663          |
|                                                         | =====           | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 18 Trade and other receivables

|                                                                   | 2008<br>AED'000  | 2007<br>AED'000  |
|-------------------------------------------------------------------|------------------|------------------|
| <b>Financial instruments</b>                                      |                  |                  |
| Trade and contract receivables                                    | 2,417,664        | 1,765,215        |
| Property sale receivables                                         | 112,470          | 70,045           |
| Retentions due within one year                                    | 158,333          | 136,801          |
|                                                                   | -----            | -----            |
|                                                                   | 2,688,467        | 1,972,061        |
| Less: provision for doubtful receivables (refer note 40(a))       | (41,459)         | (30,772)         |
| Less: provision for contracting related activities (refer note 8) | (500,000)        | -                |
|                                                                   | -----            | -----            |
|                                                                   | 2,147,008        | 1,941,289        |
| Other receivables                                                 | 83,740           | 169,045          |
|                                                                   | -----            | -----            |
| <b>Total (A)</b>                                                  | <b>2,230,748</b> | <b>2,110,334</b> |
|                                                                   | =====            | =====            |
| <b>Non-financial instruments</b>                                  |                  |                  |
| Advances to contractors                                           | 456,288          | 774,612          |
| Prepayments                                                       | 86,025           | 51,418           |
|                                                                   | -----            | -----            |
| <b>Total (B)</b>                                                  | <b>542,313</b>   | <b>826,030</b>   |
|                                                                   | -----            | -----            |
| <b>Total (A+B)</b>                                                | <b>2,773,061</b> | <b>2,936,364</b> |
|                                                                   | =====            | =====            |

- (i) Certain contract receivables are assigned in favour of the banks for facilities availed by a subsidiary (refer note 23).
- (ii) The Group's exposure to credit risks and impairment losses related to loans and receivables are disclosed in note 40(a).

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 19 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:

|                                                                                                                           | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Project management income and income from contracts                                                                       | 36,079          | 16,477          |
| Long-term loans obtained from consortium of banks for which a significant shareholder of the Company is the lead arranger | 2,184,756       | 1,635,099       |
| Interest earned from deposit with a significant shareholder, a bank                                                       | 826             | 2,360           |
| Interest on bank overdraft paid to a significant shareholder, a bank                                                      | 9,837           | 10,084          |
| Interest on term loan paid to a significant shareholder, a bank                                                           | 149,934         | 43,310          |
| Advertisement expenses                                                                                                    | 22,484          | 17,662          |
| Compensation to key management personnel are as follows:                                                                  |                 |                 |
| - Salaries and other short term employee benefits                                                                         | 19,548          | 14,578          |
| - Provision towards employees terminal benefits                                                                           | 2,683           | 920             |
|                                                                                                                           | =====           | =====           |

The Group's exposure to credit risk and liquidity risk related to related party balances are disclosed in notes 40(a) and 40(b) respectively.

### 20 Cash in hand and at bank

|                           | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------|-----------------|-----------------|
| Cash in hand              | 734             | 719             |
| Cash at bank in:          |                 |                 |
| - fixed deposit accounts  | 92,234          | 16,745          |
| - current accounts        | 157,811         | 70,854          |
| - margin deposit accounts | 12              | 12              |
|                           | -----           | -----           |
|                           | 250,791         | 88,330          |
|                           | =====           | =====           |

- (i) Fixed deposits carry interest rate ranging from 4% to 6% and have an original maturity of less than three months.
- (ii) Cash at bank includes balances with a significant shareholder, a bank, amounting to AED 133.1 million (2007: AED 77.9 million)
- (iii) The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in note 40(c).

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 21 Trade and other payables

|                                                    | 2008<br>AED'000  | 2007<br>AED'000  |
|----------------------------------------------------|------------------|------------------|
| <b>Financial instruments</b>                       |                  |                  |
| Trade payables                                     | 599,940          | 366,975          |
| Retention due within one year                      | 127,078          | 30,217           |
| Other payables and accruals (refer note (i) below) | 2,656,850        | 774,669          |
| Payable on interest rate swap (refer note 30)      | 4,058            | 3,354            |
| Directors' fees payable                            | 4,000            | 4,000            |
|                                                    | -----            | -----            |
| <b>Total (A)</b>                                   | <b>3,391,926</b> | <b>1,179,215</b> |
|                                                    | =====            | =====            |
| <b>Non-financial instruments</b>                   |                  |                  |
| Billings in excess of valuation (refer note 17)    | 273,291          | 125,545          |
|                                                    | -----            | -----            |
| <b>Total (B)</b>                                   | <b>273,291</b>   | <b>125,545</b>   |
|                                                    | -----            | -----            |
| <b>Total (A+B)</b>                                 | <b>3,665,217</b> | <b>1,304,760</b> |
|                                                    | =====            | =====            |

- (i) Other payables and accruals include an amount of AED 1,553.1 million payable on account of purchase of plots of land. Subsequent to balance sheet date, the Company entered into agreements whereby liabilities amounting to AED 1,455.2 million have been settled. Also refer note 42(ii).

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 40(b).

## 22 Advances and deposits

|                                             | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------------------------|-----------------|-----------------|
| <b>Financial instruments</b>                |                 |                 |
| Security deposits                           | 12,304          | 21,376          |
|                                             | -----           | -----           |
| <b>Total (A)</b>                            | <b>12,304</b>   | <b>21,376</b>   |
|                                             | -----           | -----           |
| <b>Non-financial instruments</b>            |                 |                 |
| Advances relating to construction contracts | 318,528         | 290,865         |
| Income received in advance                  | 49,690          | 52,784          |
|                                             | -----           | -----           |
| <b>Total (B)</b>                            | <b>368,218</b>  | <b>343,649</b>  |
|                                             | -----           | -----           |
| <b>Total (A+B)</b>                          | <b>380,522</b>  | <b>365,025</b>  |
|                                             | =====           | =====           |

The Group's exposure to liquidity risk related to advances and deposits is disclosed in note 40(b).

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 23 Short-term bank borrowings

This note provides information about the contractual terms of the Group's interest bearing short-term bank borrowings, which are measured at amortized cost. For more information about the Group's exposure to liquidity risk and interest rate risk, refer notes 40(b) and 40(c) respectively.

|                             | 2008<br>AED'000  | 2007<br>AED'000  |
|-----------------------------|------------------|------------------|
| Bank overdraft              | 831,149          | 245,065          |
| Bills/cheques discounted    | 946,761          | 440,611          |
| Trust receipts              | 38,453           | 273,446          |
| Short-term loans from banks | -                | 150,000          |
|                             | -----            | -----            |
|                             | <b>1,816,363</b> | <b>1,109,122</b> |
|                             | =====            | =====            |

- (i) Bank borrowings carry interest at prevailing commercial rates.
- (ii) Bank borrowings include AED 1,308.8 million (2007: AED 1,027.7 million) due to a significant shareholder, a bank.
- (iii) Bank borrowings of a subsidiary amounting to AED 1,199.0 million (2007: AED 902.0 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 18).

### 24 Long-term bank loans

This note provides information about the contractual terms of the Group's interest bearing long-term bank loans, which are measured at amortized cost. For more information about the Group's exposure to liquidity risk and interest rate risk, refer notes 40(b) and 40(c) respectively.

|                        | 2008<br>AED'000  | 2007<br>AED'000  |
|------------------------|------------------|------------------|
| Balance at 31 December | 4,594,181        | 2,269,470        |
| Less: current portion  | (2,515,844)      | (75,803)         |
|                        | -----            | -----            |
| Non-current portion    | <b>2,078,337</b> | <b>2,193,667</b> |
|                        | =====            | =====            |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 24 Long-term bank loans (continued)

- (i) The Company has a term loan facility from a significant shareholder, a bank of AED 188.2 million. At 31 December 2008, the loan amount outstanding is AED 113.1 million (2007: AED 127.1 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. This loan is secured by:
  - a. Deposit of title deed 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;
  - b. Assignment of rental income in respect of a property;
  - c. Assignment of insurance policy of a property; and
  - d. Promissory note of AED 188.2 million.
- (ii) The Company had a term loan facility of AED 64 million from a bank which was repayable in 40 quarterly instalments commencing from 1 February 2003. This loan has been fully repaid during the year. The loan amount outstanding as at 31 December 2007 was AED 32 million.
- (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 2008, the loan amount outstanding is AED 75.0 million (2007: AED 93.8 million). This loan is secured by:
  - a. Deposit of title deed 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
  - b. Promissory note of AED 150 million.
- (iv) The Company has a term loan facility from a bank of AED 70 million. At 31 December 2008, the loan amount outstanding is AED 35.9 million (2007: AED 43.7 million). The loan is repayable in 36 quarterly instalments commencing 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 repayable in 32 equal quarterly instalments commencing 20 July 2004. At 31 December 2008, the loan amount outstanding is AED 28.4 million (2007: AED 36.6 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 30 June 2004. At 31 December 2008, the loan amount outstanding is AED 21.9 million (2007: AED 28.1 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 of AED 50 million.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 24 Long-term bank loans (continued)

- (vii) The Company had a term loan facility of AED 290 million from a bank, which was repayable in 40 quarterly instalments commencing 31 March 2006. During the current year, the term loan facility has been increased to AED 400 million and is now fully repayable in 2012. At 31 December 2008, the loan amount outstanding is AED 400.0 million (2007: AED 273.1 million). This loan is secured by:
- Deposit of title deed 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 insurance policy of a property;
  - Assignment of lease proceeds of certain properties; and
  - A security cheque of AED 400 million which can be encashed by the bank in the event of default.
- (viii) During the previous year, the Company had obtained a term loan facility of AED 1,000 million from a significant shareholder, a bank, which is repayable in 4 quarterly instalments commencing 31 March 2009. During the current year, the term loan facility has been increased to AED 1,070.0 million. At 31 December 2008, the loan amount outstanding is AED 1,070.0 million (2007: AED 733.1 million). This loan is secured by:
- 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
  - Assignment of insurance policy of a property.
- (ix) During the previous year, the Company had obtained a term loan facility of AED 2,750.0 million from a consortium of banks, including a significant shareholder, which is repayable in 4 quarterly instalments commencing 30 September 2009. At 31 December 2008, the loan amount outstanding is AED 2,749.9 million (2007: AED 902.0 million). This loan is secured by:
- 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;
  - Assignment of receivables in connection with the project financed; and
  - Assignment of lease proceeds of certain properties.
- Furthermore, this loan has certain financial covenants relating to debt-equity ratio and other commitments which were met at 31 December 2008.
- (x) During the current year, the Company has obtained a term loan facility of AED 100 million from a significant shareholder, a bank, which is repayable in 27 equal quarterly instalments commencing 18 February 2009. At 31 December 2008, the loan amount outstanding is AED 100 million. This loan is secured by:
- Deposit of title deed 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 of AED 100 million.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 25 Deferred income

|                                                        | 2008<br>AED'000 | 2007<br>AED'000 |
|--------------------------------------------------------|-----------------|-----------------|
| Balance at 1 January                                   | 37,688          | 39,938          |
| Less: income recognized during the year (refer note 9) | (2,250)         | (2,250)         |
|                                                        | -----           | -----           |
| Balance at 31 December                                 | 35,438          | 37,688          |
|                                                        | =====           | =====           |

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 valuator.

The grant relating to the Autodrome land has been recognized in the consolidated financial statements as deferred income upto 31 December 2008 over the estimated useful life of the Autodrome of 20 years. During the current year, the Board of Directors have resolved to transfer the book value of the Autodrome to development properties (refer note 11). Accordingly the remaining balance of deferred income as at 31 December 2008 would be recognized in the consolidated income statement as and when the units in the Motorcity project are sold or valued for investment properties.

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

### 26 Long-term payables

|                                         | 2008<br>AED'000 | 2007<br>AED'000 |
|-----------------------------------------|-----------------|-----------------|
| Long-term payables for purchase of land | 23,443          | 21,163          |
| Long-term retention payables            | 59,143          | 49,086          |
|                                         | -----           | -----           |
|                                         | 82,586          | 70,249          |
|                                         | =====           | =====           |

### 27 Provision for staff terminal benefits

|                                | 2008<br>AED'000 | 2007<br>AED'000 |
|--------------------------------|-----------------|-----------------|
| Balance at 1 January           | 55,423          | 37,765          |
| Provision made during the year | 36,984          | 25,027          |
| Payments made during the year  | (6,650)         | (7,369)         |
|                                | -----           | -----           |
| Balance at 31 December         | 85,757          | 55,423          |
|                                | =====           | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 28 Share capital and treasury shares

|                                                          | 2008<br>AED'000  | 2007<br>AED'000  |
|----------------------------------------------------------|------------------|------------------|
| <b>Issued and fully paid up:</b>                         |                  |                  |
| 3,060,778,621 (2007: 2,782,526,019) shares of AED 1 each | 3,060,779        | 2,782,526        |
| <b>Treasury shares purchased:</b>                        |                  |                  |
| 1,208,281 (2007: 1,098,437) shares of AED 1 each         | (4,998)          | (4,998)          |
|                                                          | -----            | -----            |
| <b>Shares outstanding at 31 December</b>                 | <b>3,055,781</b> | <b>2,777,528</b> |
|                                                          | =====            | =====            |

At 31 December 2008, 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 278.2 million, being 10% of the paid up share capital of the Company at 31 December 2007. Furthermore, during the current year, the Board of Directors have proposed to issue bonus amounting to AED 306.1 million which will be submitted for formal approval and declaration at the Annual General Meeting.

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

### 29 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.

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.

### 30 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 Group uses interest rate swaps to hedge its risk associated primarily with the variability in cash flows resulting from interest rate fluctuations on long-term bank loans.

During 2005, the Group had obtained interest rate swaps with periodic knockout structure to hedge 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 long-term bank loans obtained by the Company from exposure to any increase in interest rates. In the previous year, these interest rate swaps were terminated and a gain of AED 2.4 million was transferred from hedging reserve to the income statement (refer note 7).

Furthermore, in the previous year, the Group had 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 206.2 million. The swap is used to protect the long-term bank 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 2008, the fair value loss on the interest rate swaps amounting to AED 4.0 million (2007: AED 3.4 million) has been debited to hedging reserve and included as part of equity.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 31 Revaluation surplus

Revaluation surplus represent the revaluation gain on assets transferred from property, plant and equipment to investment property.

## 32 Subsidiaries and joint ventures

At 31 December 2008, the Company holds investments in the following subsidiaries and joint ventures. These entities are limited liability companies and have 31 December as their reporting date:

| Entity                        | Incorporated in       | Effective ownership | Principal activities                                                                                                                                                                   |
|-------------------------------|-----------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Subsidiaries</b>           |                       |                     |                                                                                                                                                                                        |
| Thermo LLC                    | UAE                   | 100%                | Contracting of mechanical, electrical, 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, mechanical, electrical and plumbing works 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 mechanical, electrical and plumbing works of building projects and facilities management services.                                                                      |
| The Fitout LLC                | UAE                   | 100%                | Manufacturing and interior decoration                                                                                                                                                  |
| Speedcar Series Limited, BVI  | British Virgin Island | 100%                | Organising and providing speed cars for international motor races.                                                                                                                     |
| <b>Joint ventures</b>         |                       |                     |                                                                                                                                                                                        |
| 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)

## 33 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:

|                           | 2008<br>AED'000 | 2007<br>AED'000 |
|---------------------------|-----------------|-----------------|
| Non-current assets        | 541,243         | 408,654         |
| Current assets            | 82,496          | 146,591         |
| Non-current liabilities   | (409,869)       | (53,017)        |
| Current liabilities       | (3,250)         | (348,292)       |
| Inter-company elimination | (6,376)         | (5,065)         |
|                           | -----           | -----           |
| Net assets                | 204,244         | 148,871         |
|                           | =====           | =====           |
| Income                    | 354,903         | 130,945         |
| Expenses                  | (298,219)       | (99,658)        |
| Inter-company elimination | (1,311)         | 5,827           |
|                           | -----           | -----           |
| Net profit                | 55,373          | 37,114          |
|                           | =====           | =====           |

### (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.

At 31 December 2008, 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 the joint venture is as follows:

|                         | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------|-----------------|-----------------|
| Non-current assets      | 469,906         | 215,433         |
| Current assets          | 48,236          | 8,548           |
| Non-current liabilities | (287,679)       | (117,433)       |
| Current liabilities     | (61,687)        | (33,514)        |
|                         | -----           | -----           |
| Net assets              | 168,776         | 73,034          |
|                         | =====           | =====           |
| Income                  | 29,462          | 19,011          |
| Expenses                | (26,720)        | (17,898)        |
|                         | -----           | -----           |
| Net profit              | 2,742           | 1,113           |
|                         | =====           | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 33 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. At 31 December 2008, these joint ventures have been ended. The details of the Group's share in the results of operations, assets and liabilities of the joint venture operations included in the consolidated financial statements of the previous year are as follows:

|                | <b>2008</b><br><b>AED'000</b> | 2007<br>AED'000 |
|----------------|-------------------------------|-----------------|
| Current assets | -                             | 4,129           |
|                | ---                           | -----           |
| Net assets     | -                             | 4,129           |
|                | ==                            | =====           |
| Expenses       | -                             | (401)           |
|                | ---                           | -----           |
| Net loss       | -                             | (401)           |
|                | ==                            | =====           |

- (d) During 2004, Edara LLC entered into an agreement 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 venture operations included in the consolidated financial statements are as follows:

|                     | <b>2008</b><br><b>AED'000</b> | 2007<br>AED'000 |
|---------------------|-------------------------------|-----------------|
| Current assets      | <b>316</b>                    | 169             |
| Current liabilities | <b>(316)</b>                  | (169)           |
|                     | ----                          | -----           |
| Net assets          | -                             | -               |
|                     | ==                            | =====           |
| Income              | <b>3,789</b>                  | 4,622           |
| Expenses            | <b>(3,789)</b>                | (4,622)         |
|                     | -----                         | -----           |
| Net profit          | -                             | -               |
|                     | =====                         | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 33 Interest in joint ventures (continued)

- (e) During 2007, Thermo LLC had entered into an agreement with Amena Pipeline Construction LLC for mechanical, electrical and plumbing and other contract works for Fuel Farm Aviation project 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:

|                         | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------|-----------------|-----------------|
| Non-current assets      | 2,610           | -               |
| Current assets          | 34,736          | -               |
| Non-current liabilities | (573)           | -               |
| Current liabilities     | (29,247)        | -               |
|                         | -----           | ---             |
| Net assets              | 7,526           | -               |
|                         | =====           | ==              |
| Income                  | 106,401         | -               |
| Expenses                | (98,800)        | -               |
|                         | -----           | ---             |
| Net profit              | 7,601           | -               |
|                         | =====           | ==              |

### 34 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 previous year, Nautilus had 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 2008, the net equity of Nautilus amounts to AED 0.4 million.

### 35 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.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 36 Cash and cash equivalents

|                                          | 2008<br>AED'000 | 2007<br>AED'000 |
|------------------------------------------|-----------------|-----------------|
| Cash in hand and at bank (refer note 20) | 250,791         | 88,330          |
| Bank overdraft (refer note 23)           | (831,149)       | (245,065)       |
| Bills/cheques discounted (refer note 23) | (946,761)       | (440,611)       |
|                                          | -----           | -----           |
|                                          | (1,527,119)     | (597,346)       |
|                                          | =====           | =====           |

## 37 Basic and diluted earnings per share

|                                                   | 2008          | 2007          |
|---------------------------------------------------|---------------|---------------|
| Net profit attributable to shareholders (AED'000) | 763,100       | 684,431       |
| Weighted average number of shares                 | 3,059,570,340 | 3,059,570,340 |
|                                                   | =====         | =====         |

For recalculating the earnings per share for 2007, the weighted average number of shares has been adjusted as if the bonus issue had occurred at the beginning of 2007.

## 38 Capital commitments and contingent liabilities

|                                          | 2008<br>AED'000 | 2007<br>AED'000 |
|------------------------------------------|-----------------|-----------------|
| <b>Company and its subsidiaries</b>      |                 |                 |
| <b>Commitments:</b>                      |                 |                 |
| Purchase commitments (letters of credit) | 396,519         | 439,444         |
| Capital commitments                      | 2,741,924       | 6,305,884       |
|                                          | =====           | =====           |
| <b>Contingent liabilities:</b>           |                 |                 |
| Letters of guarantee                     | 1,830,237       | 1,371,910       |
|                                          | =====           | =====           |

The Company has provided corporate guarantees of AED 685.0 million (2007: AED 331.0 million) to banks in respect of facilities granted by it to the joint ventures.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 39 Segment reporting

#### Business segments

The Group's activities include two main business segments, namely, real estate property management and sales and construction activities. Other activities mainly comprise hospitality services. The details of segment revenue, segment result, segment assets and segment liabilities are as under:

|                                                 | Property<br>management<br>and sales<br>AED'000 | Construction<br>AED'000 | Others<br>AED'000 | Total<br>AED'000 |
|-------------------------------------------------|------------------------------------------------|-------------------------|-------------------|------------------|
| <b>2008</b>                                     |                                                |                         |                   |                  |
| Segment revenue                                 | 354,209                                        | 3,106,939               | 175,858           | 3,637,006        |
| Segment result                                  | 244,689                                        | 244,569                 | (66,670)          | 422,588          |
| Administrative and general expenses             | (63,289)                                       | (72,396)                | (29,597)          | (165,282)        |
| Financial income and expense (net)              | (50,993)                                       | (55,526)                | -                 | (106,519)        |
| Gain on valuation of investment properties      | 880,114                                        | -                       | -                 | 880,114          |
| Gain on sale of investment properties           | 153,930                                        | -                       | -                 | 153,930          |
| Provision for contracting related activities    | -                                              | (500,000)               | -                 | (500,000)        |
| Other income                                    | 16,702                                         | 2,386                   | 1,066             | 20,154           |
| Share of profit in joint ventures               | 55,373                                         | -                       | 2,742             | 58,115           |
| Net profit for the year                         | 1,236,526                                      | (380,967)               | (92,459)          | 763,100          |
| Segment assets                                  | 15,554,641                                     | 3,177,008               | 115,624           | 18,847,273       |
| Investment in joint ventures                    | 204,244                                        | -                       | 168,776           | 373,020          |
| Total assets                                    | 15,758,885                                     | 3,177,008               | 284,400           | 19,220,293       |
| Segment liabilities                             | 10,507,024                                     | 2,719,146               | 13,795            | 13,239,965       |
| Capital expenditure                             | 7,717,268                                      | 16,098                  | 4,289             | 7,737,655        |
| Depreciation                                    | 36,409                                         | 10,730                  | 6,748             | 53,887           |
| <b>2007</b>                                     |                                                |                         |                   |                  |
| Segment revenue                                 | 539,824                                        | 2,245,207               | 136,827           | 2,921,858        |
| Segment result                                  | 362,372                                        | 141,591                 | 34,923            | 538,886          |
| Administrative and general expenses             | (83,843)                                       | (30,678)                | (19,583)          | (134,104)        |
| Financial income and expense (net)              | (45,149)                                       | (28,915)                | -                 | (74,064)         |
| Other income                                    | 3,368                                          | 3,240                   | 1,357             | 7,965            |
| Gain on fair valuation of investment properties | 307,521                                        | -                       | -                 | 307,521          |
| Share of profit in joint ventures               | 37,114                                         | -                       | 1,113             | 38,227           |
| Net profit for the year                         | 581,383                                        | 85,238                  | 17,810            | 684,431          |
| Segment assets                                  | 8,432,161                                      | 2,377,085               | 67,163            | 10,876,409       |
| Investment in joint ventures                    | 148,871                                        | -                       | 73,034            | 221,905          |
| Total assets                                    | 8,581,032                                      | 2,377,085               | 140,197           | 11,098,314       |
| Segment liabilities                             | 3,643,079                                      | 2,161,506               | 68,917            | 5,873,502        |
| Capital expenditure                             | 2,251,429                                      | 13,946                  | 5,602             | 2,270,977        |
| Depreciation                                    | 22,358                                         | 13,946                  | 1,795             | 38,099           |

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 40 Financial instruments

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

|                                     | Note | Designated<br>as fair value<br>through profit<br>or loss<br>AED'000 | Loans and<br>receivables<br>AED'000 | Others at<br>amortized cost<br>AED'000 | Designated<br>as cash<br>flow hedge<br>AED'000 | Carrying<br>amount<br>AED'000 | Fair value<br>AED'000 |
|-------------------------------------|------|---------------------------------------------------------------------|-------------------------------------|----------------------------------------|------------------------------------------------|-------------------------------|-----------------------|
| <b>31 December 2008</b>             |      |                                                                     |                                     |                                        |                                                |                               |                       |
| <b>Financial assets</b>             |      |                                                                     |                                     |                                        |                                                |                               |                       |
| Long-term receivables               | 14   | -                                                                   | 203,265                             | -                                      | -                                              | 203,265                       | 203,265               |
| Investment in marketable securities | 15   | 6,401                                                               | -                                   | -                                      | -                                              | 6,401                         | 6,401                 |
| Trade and other receivables         | 18   | -                                                                   | 2,230,748                           | -                                      | -                                              | 2,230,748                     | 2,230,748             |
| Due from related parties            | 19   | -                                                                   | 7,949                               | -                                      | -                                              | 7,949                         | 7,949                 |
| Cash in hand and at bank            | 20   | -                                                                   | 250,791                             | -                                      | -                                              | 250,791                       | 250,791               |
|                                     |      | -----                                                               | -----                               | ---                                    | ---                                            | -----                         | -----                 |
| <b>Total</b>                        |      | <b>6,401</b>                                                        | <b>2,692,753</b>                    | <b>-</b>                               | <b>-</b>                                       | <b>2,699,154</b>              | <b>2,699,154</b>      |
|                                     |      | =====                                                               | =====                               | ==                                     | ==                                             | =====                         | =====                 |
| <b>Financial liabilities</b>        |      |                                                                     |                                     |                                        |                                                |                               |                       |
| Trade and other payables            | 21   | -                                                                   | -                                   | 3,387,868                              | -                                              | 3,387,868                     | 3,387,868             |
| Security deposits                   | 22   | -                                                                   | -                                   | 12,304                                 | -                                              | 12,304                        | 12,304                |
| Due to related parties              | 19   | -                                                                   | -                                   | 5,537                                  | -                                              | 5,537                         | 5,537                 |
| Short-term bank borrowings          | 23   | -                                                                   | -                                   | 1,816,363                              | -                                              | 1,816,363                     | 1,816,363             |
| Long-term bank loans                | 24   | -                                                                   | -                                   | 4,594,181                              | -                                              | 4,594,181                     | 4,594,181             |
| Long-term payables                  | 26   | -                                                                   | -                                   | 82,586                                 | -                                              | 82,586                        | 82,586                |
| Interest rate swaps                 | 21   | -                                                                   | -                                   | -                                      | 4,058                                          | 4,058                         | 4,058                 |
|                                     |      | ---                                                                 | ---                                 | -----                                  | -----                                          | -----                         | -----                 |
| <b>Total</b>                        |      | <b>-</b>                                                            | <b>-</b>                            | <b>9,898,839</b>                       | <b>4,058</b>                                   | <b>9,902,897</b>              | <b>9,902,897</b>      |
|                                     |      | ==                                                                  | ==                                  | =====                                  | =====                                          | =====                         | =====                 |

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 40 Financial instruments (continued)

|                                     | Note | Designated<br>as fair value<br>through profit<br>or loss<br>AED'000 | Loans and<br>receivables<br>AED'000 | Others at<br>amortized cost<br>AED'000 | Designated<br>as cash<br>flow hedge<br>AED'000 | Carrying<br>amount<br>AED'000 | Fair value<br>AED'000 |
|-------------------------------------|------|---------------------------------------------------------------------|-------------------------------------|----------------------------------------|------------------------------------------------|-------------------------------|-----------------------|
| <b>31 December 2007</b>             |      |                                                                     |                                     |                                        |                                                |                               |                       |
| <b>Financial assets</b>             |      |                                                                     |                                     |                                        |                                                |                               |                       |
| Long-term receivables               | 14   | -                                                                   | 289,440                             | -                                      | -                                              | 289,440                       | 289,440               |
| Investment in marketable securities | 15   | 13,217                                                              | -                                   | -                                      | -                                              | 13,217                        | 13,217                |
| Trade and other receivables         | 18   | -                                                                   | 2,110,334                           | -                                      | -                                              | 2,110,334                     | 2,110,334             |
| Due from related parties            | 19   | -                                                                   | 7,082                               | -                                      | -                                              | 7,082                         | 7,082                 |
| Cash in hand and at bank            | 20   | -                                                                   | 88,330                              | -                                      | -                                              | 88,330                        | 88,330                |
|                                     |      | -----                                                               | -----                               | ---                                    | ---                                            | -----                         | -----                 |
| <b>Total</b>                        |      | <b>13,217</b>                                                       | <b>2,495,186</b>                    | <b>-</b>                               | <b>-</b>                                       | <b>2,508,403</b>              | <b>2,508,403</b>      |
|                                     |      | =====                                                               | =====                               | ==                                     | ==                                             | =====                         | =====                 |
| <b>Financial liabilities</b>        |      |                                                                     |                                     |                                        |                                                |                               |                       |
| Trade and other payables            | 21   | -                                                                   | -                                   | 1,175,861                              | -                                              | 1,175,861                     | 1,175,861             |
| Security deposits                   | 22   | -                                                                   | -                                   | 21,376                                 | -                                              | 21,376                        | 21,376                |
| Due to related parties              | 19   | -                                                                   | -                                   | 5,590                                  | -                                              | 5,590                         | 5,590                 |
| Short-term bank borrowings          | 23   | -                                                                   | -                                   | 1,109,122                              | -                                              | 1,109,122                     | 1,109,122             |
| Long-term bank loans                | 24   | -                                                                   | -                                   | 2,269,470                              | -                                              | 2,269,470                     | 2,269,470             |
| Long-term payables                  | 26   | -                                                                   | -                                   | 70,249                                 | -                                              | 70,249                        | 70,249                |
| Interest rate swaps                 | 21   | -                                                                   | -                                   | -                                      | 3,354                                          | 3,354                         | 3,354                 |
|                                     |      | ---                                                                 | ---                                 | -----                                  | -----                                          | -----                         | -----                 |
| <b>Total</b>                        |      | <b>-</b>                                                            | <b>-</b>                            | <b>4,651,668</b>                       | <b>3,354</b>                                   | <b>4,655,022</b>              | <b>4,655,022</b>      |
|                                     |      | ==                                                                  | ==                                  | =====                                  | ====                                           | =====                         | =====                 |

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 40 Financial instruments (continued)

#### (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:

|                                          | Note | 2008<br>AED'000 | 2007<br>AED'000 |
|------------------------------------------|------|-----------------|-----------------|
| Long-term receivables                    | 14   | 203,265         | 289,440         |
| Investment in marketable securities      | 15   | 4,500           | 3,250           |
| Trade and other receivables (net)        | 18   | 2,230,748       | 2,110,334       |
| Due from related parties                 | 19   | 7,949           | 7,082           |
| Cash at bank (including margin deposits) | 20   | 250,057         | 87,611          |
|                                          |      | -----           | -----           |
|                                          |      | 2,696,519       | 2,497,717       |
|                                          |      | =====           | =====           |

Trade and other receivables (including long-term receivables) include an amount of AED 237.5 million (2007: 207.7 million) on sale of property where the legal title to the property is retained by the Group as a collateral. At 31 December 2008, the fair value of the properties held as collateral by the Group approximates to AED 449.3 million.

##### *Impairment losses*

The ageing of trade/contract and retention receivables (including long-term receivables) at the reporting date is as under:

|                        | 2008             |                      | 2007             |                      |
|------------------------|------------------|----------------------|------------------|----------------------|
|                        | Gross<br>AED'000 | Provision<br>AED'000 | Gross<br>AED'000 | Provision<br>AED'000 |
| Not past due           | 939,602          | -                    | 1,477,012        | -                    |
| Past due 1 – 90 days   | 554,700          | -                    | 529,948          | (129)                |
| Past due 91 – 365 days | 755,606          | -                    | 195,541          | (2,204)              |
| More than one year     | 640,952          | (41,459)             | 58,150           | (28,439)             |
|                        | -----            | -----                | -----            | -----                |
| Total                  | 2,890,860        | (41,459)             | 2,260,651        | (30,772)             |
|                        | =====            | =====                | =====            | =====                |

The outstanding amount for more than one year primarily represents amounts due from certain customers against which management believes that existing provision for doubtful debts is adequate and considers that the balance amount is fully recoverable.

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

|                                                             | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------------------------------------------|-----------------|-----------------|
| Balance at 1 January                                        | 30,772          | 18,049          |
| Provision for the year (refer note 7)                       | 25,511          | 14,000          |
| Amounts written off/provision reversed during the year      | (14,824)        | (1,277)         |
|                                                             | -----           | -----           |
| Balance at 31 December (refer note 18)                      | 41,459          | 30,772          |
|                                                             | =====           | =====           |
| Provision for contracting related activities (refer note 8) | 500,000         | -               |
|                                                             | =====           | =====           |

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 40 Financial instruments (continued)

### (b) Liquidity risk

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

|                                             | Carrying<br>amount<br>AED'000 | Contractual<br>cash flows<br>AED'000 | Less than<br>one year<br>AED'000 | More than<br>one year<br>AED'000 |
|---------------------------------------------|-------------------------------|--------------------------------------|----------------------------------|----------------------------------|
| <b>Financial liabilities</b>                |                               |                                      |                                  |                                  |
| <b>31 December 2008</b>                     |                               |                                      |                                  |                                  |
| <b>Non-derivative financial instruments</b> |                               |                                      |                                  |                                  |
| Trade and other payables                    | 3,387,868                     | 3,387,868                            | 3,387,868                        | -                                |
| Security deposits                           | 12,304                        | 12,304                               | 12,304                           | -                                |
| Due to related parties                      | 5,537                         | 5,537                                | 5,537                            | -                                |
| Short-term bank borrowings                  | 1,816,363                     | 1,898,099                            | 1,898,099                        | -                                |
| Long-term bank loans                        | 4,594,181                     | 4,887,364                            | 2,663,730                        | 2,223,634                        |
| Long-term payables                          | 82,586                        | 82,586                               | -                                | 82,586                           |
| <b>Derivative financial instruments</b>     |                               |                                      |                                  |                                  |
| Interest rate swaps                         | 4,058                         | 6,058                                | 6,058                            | -                                |
| <b>Total</b>                                | <b>9,902,897</b>              | <b>10,279,816</b>                    | <b>7,973,596</b>                 | <b>2,306,220</b>                 |
|                                             | =====                         | =====                                | =====                            | =====                            |
|                                             |                               |                                      |                                  |                                  |
|                                             | Carrying<br>amount<br>AED'000 | Contractual<br>cash flows<br>AED'000 | Less than<br>one year<br>AED'000 | More than<br>one year<br>AED'000 |
| <b>Financial liabilities</b>                |                               |                                      |                                  |                                  |
| <b>31 December 2007</b>                     |                               |                                      |                                  |                                  |
| <b>Non-derivative financial instruments</b> |                               |                                      |                                  |                                  |
| Trade and other payables                    | 1,175,861                     | 1,175,861                            | 1,175,861                        | -                                |
| Security deposits                           | 21,376                        | 21,376                               | 21,376                           | -                                |
| Due to related parties                      | 5,590                         | 5,590                                | 5,590                            | -                                |
| Short-term bank borrowings                  | 1,109,122                     | 1,142,396                            | 1,142,396                        | -                                |
| Long-term bank loans                        | 2,269,470                     | 2,406,322                            | 76,960                           | 2,329,362                        |
| Long-term payables                          | 70,249                        | 70,249                               | -                                | 70,249                           |
| <b>Derivative financial instruments</b>     |                               |                                      |                                  |                                  |
| Interest rate swaps                         | 3,354                         | 6,354                                | 6,354                            | -                                |
| <b>Total</b>                                | <b>4,655,022</b>              | <b>4,828,148</b>                     | <b>2,428,537</b>                 | <b>2,399,611</b>                 |
|                                             | =====                         | =====                                | =====                            | =====                            |

# Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

## 40 Financial instruments (continued)

### (c) Interest rate risk

The Group is exposed to interest rate risk on cash at bank, short-term bank borrowings and long-term bank loans (refer notes 20, 23 and 24).

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

|                               | 2008<br>AED'000 | 2007<br>AED'000 |
|-------------------------------|-----------------|-----------------|
| <b>Fixed rate instruments</b> |                 |                 |
| Financial assets              | 92,234<br>===== | 16,745<br>===== |

Fixed rate instruments comprise cash at bank in fixed deposit accounts.

#### Sensitivity analysis for fixed rate instruments

Since the rate of interest is fixed, any change in the interest rates at the reporting date would not impact the consolidated income statement of the Group.

|                                  | 2008<br>AED'000    | 2007<br>AED'000    |
|----------------------------------|--------------------|--------------------|
| <b>Variable rate instruments</b> |                    |                    |
| Financial liabilities            | 6,410,544<br>===== | 3,378,592<br>===== |

Variable rate instruments comprise short-term bank borrowings and long-term bank loans.

#### 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 capitalized and assumes that all other variables remain constant.

|                           | Income statement              |                               | Equity                        |                               |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                           | 100 bp<br>increase<br>AED'000 | 100 bp<br>decrease<br>AED'000 | 100 bp<br>increase<br>AED'000 | 100 bp<br>decrease<br>AED'000 |
| <b>31 December 2008</b>   |                               |                               |                               |                               |
| Variable rate instruments | (25,907)<br>=====             | 25,907<br>=====               | (25,907)<br>=====             | 25,907<br>=====               |
| <b>31 December 2007</b>   |                               |                               |                               |                               |
| Variable rate instruments | (12,068)<br>=====             | 12,068<br>=====               | (12,068)<br>=====             | 12,068<br>=====               |

### (d) Equity price risk

The Group's exposure to equity price risk is disclosed in note 15.

# Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

## **40 Financial instruments (continued)**

### **(e) Currency risk**

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

### **(f) Fair value**

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

## **41 Significant accounting estimates and judgements**

Management has reviewed the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The following are the critical accounting estimates and judgements used by management in the preparation of these consolidated financial statements:

### **Revenue recognition for real estate properties**

Revenue from 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 the associated price risk is transferred to the buyer upon 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 recognized in the consolidated income statement when the outcome of the contract can be reliably estimated. The Group generally starts recognizing revenue when the project is 5-10% 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 recognized 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 2008 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. However, these will be reviewed again in the next year.

# Union Properties Public Joint Stock Company and its subsidiaries

## Notes (continued)

### 41 Significant accounting estimates and judgements (continued)

#### Valuation of investment properties

The Group obtains fair values for all its investment properties based on an open market valuation carried out by an independent registered valuator.

#### 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 recognized 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 obsolete inventory is based on the aging and past movement of the inventory.

#### Provisions on receivables

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

#### Provision for warranty expenses

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

### 42 Subsequent events

- (i) On 22 January 2009, an extraordinary general meeting was held whereby the shareholders have approved the issuance of upto AED 2,500 million non-convertible bonds to fund the rest of the company's projects including the F1-X Themed Park, the opening of which was postponed subsequent to yearend. Furthermore, the shareholders have authorized the Board of Directors to approve the terms and conditions for issuance of such bonds.
- (ii) During the current year, the Company had purchased plots of land amounting to AED 2,195.6 million for future development. At 31 December 2008, the Company has an amount of AED 1,553.1 million payable on account of purchase of land (also refer note 21(i)). Subsequent to balance sheet date, the Company entered into agreements whereby liabilities amounting to AED 1,455.2 million have been settled. Also refer note 12(iv).

### 43 Comparatives

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements.