

Union Properties
Public Joint Stock Company
and its subsidiaries

Consolidated financial statements
31 December 2020

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated financial statements

31 December 2020

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Directors' report

The Directors have the pleasure of presenting their report together with the audited consolidated financial statements of Union Properties Public Joint Stock Company and its subsidiaries ("the Group") for the year ended 31 December 2020. The Directors confirm their responsibility for the preparation of the consolidated financial statements of the Group.

Financial results

The Group revenue for 2020 reached to AED 375.9 million (2019: AED 423.4 million), gain on valuation of properties amounted to AED 743.6 million (2019: AED 3.3 million) resulting in a total profit of AED 201 million (2019: total loss of AED 224.3 million), and total comprehensive income amounted to AED 185.5 million (2019: total comprehensive loss of AED 208.8 million).

In accordance to the UAE Federal Law No.2 of 2015, 10% of profit amounting to AED 20.1 million (2019: nil) has been transferred to the Statutory Reserve.

The board of Directors of the company has proposed an issuance of bonus shares equal to 3.5% of the Company's paid up share capital and Director's fees amounting to AED 15 million which are subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

Directors

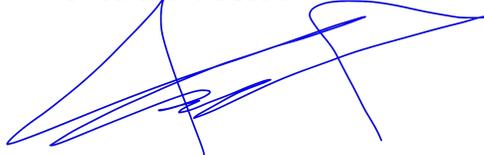
The Board of Directors comprised of:

Mr. Khalifa Hasan Ali Saleh Alhammadi	Chairman
Mr. Fathie Bin Ghrira	Vice Chairman
Mr. Dahi Yousef Ahmed Abdulla Al Mansoori	Director
Mr. Jorg Klar	Director
Mr. Mohamed Fardan Ali Al Fardan	Director
Mr. Darwish Abdulla Ahmed Al Ketbi	Director
Mr. Abdul Wahab Al Halabi	Director

Auditors

M/s. Mazar's were appointed as auditors of the Company for the year ended 31 December 2020 at the Annual General Meeting held on 18 June 2020. Mazar's are eligible for re-appointment for 2021 audit, and have expressed their interest for 2021 audit.

On behalf of the Board



Khalifa Hasan Ali Saleh Alhammadi
Chairman

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

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of Union Properties PJSC (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the matters described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for qualified opinion

- As stated in note 10 of these consolidated financial statements, the Group had attempted a review of the Masterplan for Dubai Motorcity in the previous year 2019 and for the current year 2020 and had submitted it for approval to the concerned regulatory authorities, a formal request for the issuance of revised affection plans with amended gross floor areas (GFA's). The Group had expected to receive the regulatory approval on the revised affection plans in near future and accordingly had assumed such approval in the inclusion of the GFAs in the valuation of Motorcity land bank. These treatments are departure from IFRS 13 - Fair Value Measurement. Consequently, the investment properties and equity were overstated by an amount of AED 351 million as at 1 January 2020. The Group has recorded a fair value gain of AED 1,249 million which has resulted the overstatement of income during the year amounting to AED 1,249 million and corresponding overstatement in the equity and the carrying value of investment properties as at 31 December 2020.

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

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

Our audit approaches

Overview

Key audit matters

- Valuation of investment properties.
 - Impairment of trade and retention receivables.
 - Interest-bearing borrowings
-

As part of designing our audit, we determine materiality and assessed the risks of material misstatement in the consolidated financial statements. We considered where management made subjective judgments; for instance, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represent a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking in to account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

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

Our audit approaches (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
<i>Valuation of investment properties</i>	
<p>The Group has recorded a valuation gain of AED 743.5 million in relation to the investment properties which represented 401% of the Group's total comprehensive income for the year ended 31 December 2020.</p> <p>Valuation of investment properties is identified by us as a key audit matter due to significant judgment in determining the inputs used in valuation.</p> <p>The Group's investment properties is stated at fair value based on valuation carried out by independent qualified valuer. The valuation was dependent on certain key estimates which requires significant judgement, including discount rates and future expected cash flows, which are influenced by prevailing market forces and specific characteristics such as income return and growth rate.</p>	<p>Our audit procedures included carrying out the following:</p> <ul style="list-style-type: none"> a) we have evaluated the competence, capabilities and objectivity of the valuer by evaluating the qualifications, experience, and reputation of the valuer; b) we have made inquiries and review with the valuer to understand their judgments, and estimates. We challenged their estimates and judgement including discount rates and future expected cash flows; c) we have also made inquiries with Group's project management team to understand the criteria used by the valuer in valuation of land mainly related to the Dubai Motorcity. d) we have further assessed the appropriateness and reasonableness of the valuation methodology based on the nature and circumstances of the property, and the key assumptions and estimates used in the valuation by comparing with observable market data. We involved our technical team to assist in the assessment as and when required. e) evaluate the adequacy of the disclosures in note (10) to the consolidated financial statements.

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

Our audit approaches (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
<i>Impairment of trade and retention receivables</i>	
<p>As at 31 December 2020, the Group has a trade and retention receivables balance of AED 2,087 million and recorded impairment/expected credit losses against it of AED 1,837 million.</p> <p>Management performed an assessment of the recoverability of the Group's trade and retention receivables to determine whether any were impaired. The Group has already adopted International Financial Reporting Standard 9, Financial Instruments (IFRS 9) with effect from January 1, 2018, which provides specific guidance in this area of impairment loss allowances.</p> <p>We considered this to be a key audit matter due to the significant judgement required in determining the recoverability of trade and retention receivables and the potentially material adjustments resulting from it that could effects the Group's consolidated financial position as at 31 December 2020 and its reported resulted for the year then ended.</p> <p>The computation of a Group's trade and retention receivable loss allowance was made by reference to the lifetime expected credit losses of the trade receivables adjusted by forward looking information in line with the requirements of, and guidance in, IFRS 9 guidance. As a result of the assessment performed, management recorded an additional loss allowance/expected credit loss of AED 8 million for the year ended 31 December 2020, to give a total loss allowance/expected credit loss of AED 1,837 million as at that date.</p>	<p>Our audit procedures included carrying out the following:</p> <ul style="list-style-type: none"> a) agreed the detailed listing of the loss allowance recognized on trade receivables to the Group's trial balances; b) tested how the expected credit losses model had calculated the allowance on a lifetime basis, and how this compared with the guidance contained in IFRS 9. We also tested the mathematical accuracy of the calculations; c) tested the historic payment experience used as the starting point for the re-calculation of the lifetime expected credit losses; d) evaluated the appropriateness of the adjustments for forward looking information to historical balances, loss rates and other information, including agreeing to supporting documents on the sample basis; e) assessed the completeness and accuracy of data used in calculating the expected credit losses, including the appropriate exclusion of balances assessed individually; f) assessed whether time value of money was considered in the expected credit loss impairment model and checked the mathematical accuracy and calculations; g) evaluated the appropriateness of the assumptions and judgements used by the h) management to estimate how much of the balance is recoverable; and i) evaluate the adequacy of the disclosures in note (16 and 30) to the consolidated financial statements in accordance with IFRS.

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

Our audit approaches (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
<p><i>Interest bearing borrowings</i></p> <p>Interest-bearing borrowings as at 31 December 2020 amount to AED 1,656 million as stated in note (23 and 27) to the consolidated financial statements, which represent 54% of the total liabilities and the repayment obligations for 2021 is AED 1,192 million, including any obligations payable on demand. Compliance with the financing covenants and monitoring the liquidity position are important aspects for our audit since they can impact the Group's ability to repay its obligations.</p> <p>The Group has prepared a cash flow forecast which involves judgements and estimations based on management's input of key variables and market conditions including the future economic conditions, and increased competition. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.</p>	<p>Our audit procedures included carrying out the following:</p> <ul style="list-style-type: none"> a) evaluated the assumptions applied by the management for complying with all the covenants and monitoring liquidity forecasts, as well as the sensitivity analysis prepared; b) performed a retrospective evaluation of prior covenants compliance and liquidity forecasts; c) evaluated management's future cash flow forecasts, and the process by which they were prepared, and tested the underlying key assumptions such as expected cash inflow from property rental and sales and cash outflow from capital expenditures and operating expenses; d) tested the inputs and assumptions used in the cash flow forecast against historical performance, economic and industry indicators, and the Group's strategic plans; e) performed other substantive procedures; and f) evaluate the adequacy of the disclosures in note (23 and 27) to the consolidated financial statements in accordance with IFRS.

Other information

Other information consists of the information included in the Directors' report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (CONTINUED)

Emphasis of matter

We draw attention to note (33) of these consolidated financial statements, which describes the effects of COVID-19 and the reasons for maintaining the use of going concern as well as the impact of COVID-19 on the determination of material judgments and estimates if any.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion dated 25 March 2020.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and in compliance with the applicable provisions of the Company's Articles/Memorandum of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION PROPERTIES PJSC (CONTINUED)

Report on other legal and regulatory requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Articles/Memorandum of Association of the Company;
- iii) the Group has maintained proper books of accounts;
- iv) the financial information included in the Directors' report is consistent with the books of accounts of the Group;
- v) notes (12 and 13) discloses the Group's investment in shares or stocks during the year ended 31 December 2020;
- vi) note (17) discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us and to the best of our knowledge and belief, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles/Memorandum of Association which would materially affect its activities or its consolidated financial position as at 31 December 2020.
- viii) note (34) discloses the social contributions made during the year ended 31 December 2020.

For:

MAZARS

Chartered Accountants LLC (Abu Dhabi Br. 1)



By: Jaffer A. Rupawala

Registered Auditor No.: 852

Abu Dhabi,

22 March 2021



Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000 Restated
Revenue from contracts with customers	5	375,866	423,406
Net loss on financial instruments at FVTPL	13	(43,923)	(94,959)
Loss on disposal of an associate	12	(234,524)	-
Share of results of equity accounted investees	12	(1,463)	(20,923)
Gain on valuation of investment properties, net	10	743,549	3,291
Loss on sale of investment properties	10	(90,494)	(12,829)
Finance income		2,655	3,542
Other income	7	58,748	136,078
Direct costs	5	(361,699)	(323,900)
Administrative and general expenses	6	(127,612)	(163,908)
Finance costs	9, 23 & 27	(120,119)	(174,079)
Profit/(loss) for the year		200,984	(224,281)
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations	12	(15,508)	15,508
Total other comprehensive (loss)/income		(15,508)	15,508
Total comprehensive income/(loss) for the year		185,476	(208,773)
Basic and diluted earnings per share (AED)	22	0.047	(0.052)

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

Union Properties Public Joint Stock Company and its subsidiaries

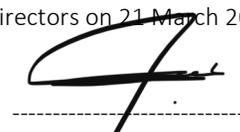
Consolidated statement of financial position

As at 31 December 2020

	Notes	31 December 2020 AED'000	31 December 2019 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	348,076	358,042
Right-of-use assets	9	26,371	31,048
Investment properties	10	4,612,744	4,111,636
Development properties	11	7,504	7,504
Investments in associates and a joint venture	12	87,368	481,937
Investments at fair value through profit or loss	13	114,608	184,516
Non-current receivables	14	33,194	33,285
Total non-current assets		5,229,865	5,207,968
Current assets			
Investments at fair value through profit or loss	13	37,276	12,996
Inventories	11	7,913	5,005
Contract assets	15	218,864	217,049
Trade and other receivables	16	394,888	293,374
Due from related parties	17	7,648	52,018
Cash in hand and at banks	18	45,400	75,482
Total current assets		711,989	655,924
Total assets		5,941,854	5,863,892
EQUITY AND LIABILITIES			
Equity			
Share capital	19	4,289,540	4,289,540
Statutory reserve	20	352,978	332,880
Currency translation reserve	20	-	15,508
Asset revaluation surplus	20	212,689	212,689
Accumulated losses		(1,961,073)	(2,141,959)
Total equity		2,894,134	2,708,658
Non-current liabilities			
Non-current portion of bank loans	23	463,056	506,330
Contract liabilities	24	8,118	8,118
Lease liabilities	9	20,333	25,211
Provision for staff terminal benefits	25	32,935	34,074
Total non-current liabilities		524,442	573,733
Current liabilities			
Trade and other payables	26	1,237,010	1,168,458
Contract liabilities	24	88,692	102,615
Lease liabilities	9	5,084	7,131
Bank overdrafts	27	192,235	291,323
Current portion of bank loans	23	1,000,257	1,011,974
Total current liabilities		2,523,278	2,581,501
Total liabilities		3,047,720	3,155,234
Total equity and liabilities		5,941,854	5,863,892

These consolidated financial statements were authorised for issue by the Board of Directors on 21 March 2021


Board Member


General Manager

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Operating activities			
Profit/(loss) for the year		200,984	(224,281)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	8	12,492	12,359
Depreciation of right of use assets	9	4,677	4,677
Loss on sale of investment properties	10.4	90,494	12,829
Gain on fair valuation of investment properties	10	(743,549)	(3,291)
Share of results of equity accounted investees	12	1,463	20,923
Allowance for expected credit losses	30	7,991	26,934
Loss on financial instruments at FVTPL	13	43,923	94,959
Loss on disposal of an associate	12	234,524	-
Finance income		(2,655)	(3,542)
Finance cost		120,119	174,079
		(29,537)	115,646
<i>Operating cash flows before working capital changes</i>			
Change in inventories		(2,908)	1,566
Change in contract assets		14,968	(2,431)
Change in trade and other receivables		(8,191)	(3,520)
Change in due from related parties		11,870	(2,316)
Change in non-current payables		16,309	-
Change in trade and other payables and contract liabilities		(21,611)	(179,702)
Change in staff terminal benefits - net		(1,139)	(1,373)
<i>Net cash used in from operating activities</i>		(20,239)	(72,130)
Investing activities			
Additions to property, plant and equipment	8	(12,359)	(16,210)
Additions to and acquisition of investment properties	10	-	(11,754)
Proceeds from/investments in financial instruments at FVTPL, net	13	2,918	5,673
Proceeds from sale of investment properties		78,022	101,692
Proceeds from disposal of investment in an associate		125,518	-
Interest received		2,655	3,542
Change in deposit with banks		(5,573)	27,733
<i>Net cash from/(used in) investing activities</i>		191,181	110,676
Financing activities			
Bank loans availed	23	47,697	151,586
Repayment of bank loans	23	(102,688)	(178,195)
Payment of lease liabilities	9	(8,746)	(2,914)
Interest paid		(32,075)	(55,682)
<i>Net cash used in financing activities</i>		(95,812)	(85,205)
Net decrease in cash and cash equivalents		75,130	(46,659)
Cash and cash equivalents at the beginning of the year		(247,895)	(201,236)
Cash and cash equivalents at the end of the year	18	(172,765)	(247,895)

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital AED'000	Statutory reserve AED'000	Currency translation reserve AED'000	Asset revaluation surplus AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2019	4,289,540	332,880	-	212,689	(1,905,273)	2,929,836
Effect of changes in accounting policies (note 3.2)	-	-	-	-	(12,405)	(12,405)
Total comprehensive income for the year	-	-	15,508	-	(224,281)	(208,773)
At 31 December 2019	4,289,540	332,880	15,508	212,689	(2,141,959)	2,708,658
At 1 January 2020	4,289,540	332,880	15,508	212,689	(2,141,959)	2,708,658
Total comprehensive loss for the year	-	-	(15,508)	-	200,984	185,476
Other equity movements						
Transfer to statutory reserve (refer note 23)	-	20,098	-	-	(20,098)	-
At 31 December 2020	4,289,540	352,978	-	212,689	(1,961,073)	2,894,134

The notes from 1 to 34 form an integral part of these consolidated financial statements.

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Union Properties Public Joint Stock Company (“the Company”) was incorporated on 28 October 1993 as a public joint stock company by a United Arab Emirates Ministerial decree. The Company’s registered office address is P.O. Box 24649, Dubai, United Arab Emirates (“UAE”).

The principal activities of the Company are investment in and development of properties, the management and maintenance of owned properties including the operation of cold stores, the undertaking of property related services on behalf of other parties (including related parties) and acting as the holding company of its subsidiaries and investing in other entities as set out in note 2.4.

The Company and its subsidiaries as set out in note 2.4 are collectively referred to as “the Group”.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB) and the requirements of the UAE Federal Law No. (2) of 2015.

2.2 Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost convention basis except for investment properties, land under property, plant and equipment, and investments at fair value through profit or loss that have been measured at fair value.

2.3 Comparative information

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements.

2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2020, as set out below:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.4 Basis of consolidation (continued)

Entity	Incorporated in	Effective ownership		Principal activities
		2020	2019	
Subsidiaries				
Thermo LLC	UAE	100%	100%	Contracting of mechanical, electrical, and plumbing works of building projects, facilities management services.
Gulf Mechanical A/C Acoustic Manufacturing (GMAMCO) LLC	UAE	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
Gmamco Trading LLC	UAE	100%	100%	Fire fighting & safety equipment trading, air condition trading, pumps, engines, valves & spare parts trading, water heaters trading, lighting equipment requisites trading.
Gmamco Saudi LLC	KSA	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
ServeU LLC	UAE	100%	100%	Facilities management, security, mechanical, electrical and plumbing works and energy management services.
Dubai Autodrome LLC	UAE	100%	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
The Fitout LLC	UAE	100%	100%	Manufacturing and interior decoration.
Thermo Saudi LLC	KSA	100%	100%	Contracting of mechanical, electrical, and plumbing works of building projects, facilities management services.
Thermo OPC	Qatar	100%	100%	Contracting of mechanical, electrical and plumbing works of building projects and facilities management services.
Union Holdings	UAE	100%	100%	Investment in equities.
UPP Capital Investment	UAE	100%	100%	Investment in equities.
Union Malls	UAE	100%	100%	Facilities management services.
UPP Investments LLC	UAE	100%	100%	Investment in equities.
Al Etihad Education	UAE	100%	100%	Investment in educational enterprises & management.
UPP International Investments LLC	UAE	100%	100%	Investment in equities.
Associates				
Properties Investment LLC	UAE	30%	30%	Investment in and development of properties and property related activities.
Palm Hills Development PJSC	Egypt	0.00%	12.31%	Investment in and development of properties and property related activities.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.4 Basis of consolidation (continued)

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements.

2.5 Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand ("AED'000"), except when otherwise indicated.

2.6 Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 31.

2.7 Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, and certain non-financial assets such as investment properties and land under property, plant and equipment, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.7 Fair Value Measurement (continued)

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group has an established control framework with respect to the measurement of fair values.

This includes a management team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The management team regularly reviews significant unobservable inputs and valuation adjustments.

External valuers are involved for valuation of significant assets, such as properties. If third party is used to measure fair values, the management team discusses with the valuer the valuation techniques and inputs to use and assesses the evidence obtained from the third party to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION (CONTINUED)

2.8 Financial Commitments

The Group's loans and borrowings as at 31 December 2020 amounted to AED 1,655.5 million (AED 1,463.3 million of bank loans and AED 192.2 million of bank overdrafts). Furthermore, the Group has net current liabilities of AED 1,811 million as at the reporting date.

The management has analysed the Group's liquidity position over a period of 12 months from the reporting date. Based on the Group's available funding facilities, forecasted cash inflows from operations, contractual loan maturities, debt service costs, estimated and committed capital expenditure, and liquid investments management has not identified a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern or to meet its future obligations.

The Board of Directors has reviewed the Group's cash flow projections and concluded that the Group will be able to meet its commitments as they fall due in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

Associates and joint ventures

Associates are those entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associates and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associates and joint venture. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associates or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Associates and joint ventures (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of associates and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers

The Group is in the business of development, sale and leasing of properties as well as involved in manufacturing, contracting, trading and services activities. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 31.

Trading activities

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery.

Contracting activities

Revenue from contracts for mechanical, electrical and plumbing works as well as from interior architecture is recognised over time using an input method (note 3) to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., delivery, installation, warranties etc.). In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Contracts with customers specify that the Group is liable to pay penalty or for liquidated damages if certain conditions specified in the contract are not met for reasons not attributable to the customer. This penalty amount may vary for different contracts and/or customers. When the Group identifies the existence of variable consideration, it will estimate the amount of the consideration at contract inception by using the expected value approach and recognise a liability for the expected future losses.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Contracting activities (continued)

Contract modifications

Variation orders or modifications to original contracts are common to the Group considering the long-term contracting nature of business. The terms for variation orders are defined in each contract. Generally, variations are priced by reference to the per unit rates agreed in the contract and the revised quantities required for the completion of the contract. In accordance with IFRS 15, the Group will account for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified. Alternatively, the Group will account for a contract modification as a separate contract if the scope of contract increases due to addition of distinct goods or services and price of the contract increases by an amount that reflects the Group's standalone selling prices.

Warranty obligations

The Group provides its customers warranty against defects arising from normal and/or expected usage and maintenance for a period of 1 year from the date of taking over certificates. Management assessed that 1 year warranty for defects are considered as an assurance type warranty as this warranty is necessary to ensure that the delivered products/services are as specified in the contract for a minimum period. There is no separate performance obligation for this warranty.

The extended warranty which is given by the Group for a period longer than required by the normal practice, is usually for the purpose of detecting errors or defects in the work performed and is necessary to provide assurance that the goods or services comply with the agreed upon specifications, and accordingly, such warranties are treated as assurance type warranty. Otherwise, and in rare cases, such warranty will be treated as a service type warranty and thus will be considered as a separate performance obligation.

Where warranty is considered as an assurance type warranty, the Group accrues for the cost of satisfying the warranty liability on the basis of historical experiences in accordance with the provisions of IAS 37.

Facility management, maintenance and motor racing services

Revenue from services are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group, on a fixed contract basis or using an input method to measure progress towards complete satisfaction of the service. Sponsorship fees related to motor racing events are recognised in the period in which the related event is held.

Rental income

Rental income from investment properties is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Revenue from sale of development properties

The Group satisfies a performance obligation and recognises revenue from sale of properties over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue from the sale of properties is recognised at the point in time at which the performance obligation is satisfied.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under the section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Cost to obtain a contract

The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense such costs (included in cost of sales) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Contract costs

Contract costs comprise direct contract costs and other costs relating to the contracting activity in general and which can be allocated to contracts. In addition, contract costs include other costs that are specifically chargeable to the customer under the terms of the contracts.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated financial statements.

Foreign currencies

Transactions and balances

Transactions denominated in foreign currencies are initially recorded in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency using the closing rate. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. All foreign currency differences are recognised in the profit or loss.

Investments in other entities

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

Finance income and expense

Finance income comprises interest income on fixed deposits. Interest income is recognised as it accrues in the profit or loss using the effective interest method.

Finance expense comprises interest expense on bank borrowings as well as interest expense on lease liabilities. All borrowing costs, except to the extent that they are capitalised in accordance with the paragraph below, are recognised in the profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Recognition and measurement

Other than land, items of property, plant and equipment are measured at cost less accumulated depreciation (refer below) and accumulated impairment losses (refer accounting policy on impairment), if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads.

At 31 December 2020 and 2019, land is measured at fair value less accumulated impairment losses recognised after the date of revaluation. Valuation is performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the consolidated statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

<i>Assets</i>	<i>Number of years</i>
Buildings and leasehold improvements	3 to 20
Plant and machinery	5 to 10
Furniture, fixtures and office equipment	2 to 4
Motor vehicles	4
Equipment and tools	2 to 3

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

Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses (refer accounting policy on impairment), if any, until the construction is complete. Upon completion of construction, the cost of such asset together with the cost directly attributable to construction (including borrowing costs and land rent capitalised) are transferred to the respective class of assets. No depreciation is charged on capital work-in-progress.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Investment properties

Recognition

Land and buildings owned by the Group for the purposes of generating rental income or capital appreciation or both are classified as investment properties. Properties that are being constructed or developed for future use as investment properties are also classified as investment properties. Where the Group provides ancillary services to the occupants of a property, it treats such a property as an investment property if the services are a relatively insignificant component of the arrangement as a whole.

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

Measurement

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Any gain or loss arising from a change in fair value is recognised in the profit or loss. Fair values are determined based on a semi-annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee

Where the fair value of an investment property under development is not reliably determinable, such property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Transfer from development properties to investment properties

Certain properties held for sale under inventory are transferred from development properties to investment properties when those properties are either released for rental or for capital appreciation or both. The properties held for sale under development properties are transferred to investment properties at cost. Subsequent to initial recognition, such properties are valued at fair value in accordance with the measurement policy for investment properties.

Transfer from investment properties to development properties

When the use of investment properties changes to held for sale, the respective properties are transferred from investment properties to development properties at their fair values on the date of transfer, which becomes its deemed cost for subsequent accounting.

Derecognition

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section *Revenue from contracts with customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, retentions receivable and due from related parties.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and retentions receivable and contract assets, including receivables from sale of real estate properties that contain a significant financing component, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, and loans and borrowings including bank overdrafts.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings and lease liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank in current and deposit accounts (having a maturity of three months or less and excluding deposits held under lien). Bank overdrafts that are repayable on demand and bills discounted having a maturity of three months or less, if any, form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGUs fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of one to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the consolidated statement of other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Properties held for sale

Properties held for sale are classified as inventories and stated at the lower of cost and net realisable value. Cost includes the aggregate cost of development, borrowing costs capitalised and other direct expenses. Net realisable value is estimated by the management, taking into account the expected price which can be ultimately achieved, based on prevailing market conditions.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Inventories (continued)

Properties held for sale (continued)

The amount of any write down of properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down arising from an increase in net realisable value is recognised in profit or loss in the period in which the increase occurs.

Other inventories

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

Provision

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

Provision for contract maintenance

Provision for contract maintenance is recognised when the underlying contract enters the maintenance period. The provision is made on a case-by-case basis for each job where the maintenance period has commenced and is based on historical maintenance cost data and an assessment of all possible outcomes against their associated probabilities.

Operating lease payments – before 1 January 2019

Group as a lessee

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives allowed by the lessor are recognised in the profit or loss as an integral part of the total lease payments made.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Leases - from 1 January 2019

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

Group as a lessee

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

Right-of-use assets

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

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

Lease liabilities

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

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

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

Leases - from 1 January 2019 (continued)

Group as a lessee (continued)

Short-term leases and leases of low-value assets

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Earnings per share

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

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The results of the operating segments are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

a. Standards, amendments and interpretations effective from January 1, 2020

The following amendments to existing standards have been adopted by the Company but are either not relevant to the operations of the Company or do not have significant impact on these financial statements:

- Amendments to IFRS 3, Business Combination, improve the definition of a business or group of assets.
- Amendments to references to conceptual framework in IFRSs.
- Amendments to IAS 1, Presentation of Financial Statements and to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors in respect with the Definition of Material.
- Amendments to IFRS 9, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures (Interest Rate Benchmark Reform).
- Amendments to IFRS 16, Leases, "COVID-19-Related Rent Concessions".

b. Standards, amendments and interpretations issued but are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations have been issued but are not yet effective and have not been early adopted by the Company:

- Amendments to IAS 1, Presentation of Financial Statements, clarify how to classify debt and other liabilities as current or non-current.
- Amendments to IFRS 3, Business Combination (Reference to the Conceptual Framework).
- Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Asset (Onerous Contracts- Cost of Fulfilling a Contract).
- Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (Annual improvements to IFRS Standards 2018-2020).
- Amendments to IAS 16, Property, Plant and Equipment (Proceeds before Intended Use).
- IFRS 17, Insurance Contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

Overview

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

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Furthermore, quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the products offered.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored. At 31 December 2020 and 2019, the Group had receivables from a large number of customers.

The Group is exposed to credit risk on receivables from real estate property sales as the Group allows its customers to make payments in instalments over a period of 2 to 5 years. In order to mitigate the credit risk, the Group receives advances from its customers at the time of the sale and post-dated cheques for the remaining balance at the time of hand over. In addition, the Group does not transfer the legal title of the property to the customer until the full amount has been paid. Furthermore, the risk of financial loss to the Group on account of customer default is low as the property title acts as collateral.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk (continued)

Trade receivables and contract assets (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30. The Group does not hold collateral as security.

The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as the balances are due from a large number of customers operating in various industries.

Exposure to credit risk from trade receivables is discussed in details in Note 30.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group considers the credit risk on bank balances to be minimal given that the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group invests only on quoted equity and debt securities with low credit risk.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2020 and 2019 is the carrying amounts as illustrated in Note 30.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk relates to trade and other payables (including non-current payables), security deposits, amounts due to related parties, lease liabilities, short-term bank borrowings, and long-term bank loans. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The maturity profile of the Group's financial liabilities is disclosed in Note 30.

Market risk

Market risk is the risk resulting from changes in market prices, such as interest rates and equity prices, which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

Market risk (continued)

Equity risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

Interest rate sensitivity analysis is disclosed in Note 30.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities in relation to debt obligations denominated in Egyptian Pounds.

Foreign currency risk sensitivity analysis is disclosed in Note 30.

Capital management

The Board of Director's policy is to maintain a strong capital base so as to maintain creditors, customers and market confidence and to sustain future development of the business. The Board of Directors' would monitor the return on capital and level of dividends based upon profits earned by the Group during the year.

There were no changes in the Group's approach to capital management during the year. Except for complying with certain provisions of the UAE Federal Law No. (2) of 2015, the Company is not subject to any externally imposed capital requirements.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS

5.1 Disaggregated revenue and cost information

Segments	For the year ended 31 December 2020			
	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total AED'000
<i>Type of goods or service</i>				
Property rentals	55,020	-	-	55,020
Mechanical, electricidal and plumbing	-	17,491	-	17,491
Facility management and maintenance services	-	-	218,331	218,331
Interior architecture	-	44,327	-	44,327
Motor racing services	-	-	24,846	24,846
Sale of goods	-	-	15,851	15,851
Total revenue from contracts with customers	55,020	61,818	259,028	375,866
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	-	-	15,851	15,851
Services transferred over time	55,020	17,491	243,177	315,688
Goods and services (bundled) transferred over time	-	44,327	-	44,327
Total revenue from contracts with customers	55,020	61,818	259,028	375,866
Direct costs	(103,482)	(52,896)	(205,321)	(361,699)
Gross profit	(48,462)	8,922	53,707	14,167
For the year ended 31 December 2019				
Segments	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total AED'000
<i>Type of goods or service</i>				
Property rentals	68,929	-	-	68,929
Mechanical, electricidal and plumbing	-	13,692	-	13,692
Facility management and maintenance services	-	-	223,781	223,781
Interior architecture	-	61,123	-	61,123
Motor racing services	-	-	32,732	32,732
Sale of goods	-	-	23,149	23,149
Total revenue from contracts with customers	68,929	74,815	279,662	423,406
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	500	-	23,149	23,649
Services transferred over time	68,429	13,692	256,513	338,634
Goods and services (bundled) transferred over time	-	61,123	-	61,123
Total revenue from contracts with customers	68,929	74,815	279,662	423,406
Direct costs	(41,347)	(63,757)	(218,796)	(323,900)
Gross profit	27,582	11,058	60,866	99,506

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.2 Direct costs information

Direct costs include the following:

	2020	2019
	AED'000	AED'000
Staff costs	130,549	148,187
Property service charges	34,670	33,660
Inventories recognised as cost	25,438	28,619
Depreciation (note 8)	3,493	3,474

5.3 Contract balances

	2020	2019
	AED'000	AED'000
Trade and retention receivables (note 14 & 16)	249,936	257,806
Contract assets (note 15)	218,864	217,049
Contract liabilities (note 24)	96,810	110,733

Trade receivables

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

Retentions receivable

Retentions receivable are non-interest bearing and represent payments withheld by customers over a certain period and according to contractual agreements between the Group and the customers. These retentions are calculated based on a certain percentage of the total work billed. Retentions receivable serve as guarantees to customers for the proper execution of the contract during and after completion of the projects.

In 2020, AED 8 million was recognised as allowance for expected credit losses on trade and retentions receivables (2019: AED 26.9 million).

Contract assets

Contract assets are initially recognised for revenue earned from contracting activities as receipt of consideration is conditional on acceptance of the customer. Upon acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. In 2020, no allowance for expected credit losses on contract assets was recognised (2019: Nil).

Contract liabilities

Contract liabilities represent advances received from customers to deliver projects, goods, and services, advances for rental of properties and excess billings (note 24).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.4 Performance obligations

Information about the Group's performance obligations are summarised below:

Sales of goods

The performance obligation is satisfied upon collection/delivery of the goods and payment is generally due within 30 to 90 days from the date of sale.

The Group receives short-term advances against the satisfaction of the related performance obligations, which do not contain any financing component, and provides assurance type warranty, which is not considered a separate performance obligation.

Contracting

The performance obligation for mechanical, electrical and plumbing works and interior decorations are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group. Payment is generally due upon submission of payment certificates and acceptance of the same by customers. The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2020	2019
	AED'000	AED'000
Within one year	<u>19,644</u>	<u>10,225</u>

Sale of properties

Based on the terms of the current sales contracts in issue, the performance obligation for the sale of properties is satisfied at a point in time, when the Company completes the physical handing over of the sold property. Payment is generally due upon handing over the property and in some cases is deferred in the form of instalments.

Rental income from properties

The performance obligation for the rental of properties is satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group. The Group usually receives payment against rental contract in advance.

Services

The performance obligations for facility management, maintenance and motor racing services are satisfied over time, because the customer simultaneously receives and consumes the benefits provided by the Group.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

6 ADMINISTRATIVE AND GENERAL EXPENSES

	2020 AED'000	2019 AED'000
<i>These include the following:</i>		
Staff costs	60,349	73,275
Professional fees and licenses	21,906	25,023
Depreciation of property, plant and equipment (note 8)	8,999	8,885
Depreciation of right of use assets (note 9)	4,677	4,677
Marketing and advertising expenses	2,131	3,837
Expected credit loss expense on receivables (note 30)	7,991	26,934
Office expenses	<u>12,601</u>	<u>6,822</u>

7 OTHER INCOME

	2020 AED'000	2019 AED'000
Reversals of liabilities (refer note below)	36,490	105,210
Miscellaneous income	<u>22,258</u>	<u>30,868</u>
	<u>58,748</u>	<u>136,078</u>

The reversals of liabilities are mainly related to payables and accruals in relation to completed projects and cancelation of contracts for which management assessed that no settlement will be required against.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

8 PROPERTY, PLANT AND EQUIPMENT

	Land AED'000	Buildings and leasehold improvements AED'000	Plant and machinery AED'000	Furniture, fixtures and office equipment AED'000	Motor vehicles AED'000	Equipment and tools AED'000	Capital work-in- progress AED'000	Total AED'000
Cost and revaluation:								
At 1 January 2019	251,977	135,169	35,488	81,577	59,858	12,931	12,464	589,464
Additions	-	718	332	2,137	917	194	11,912	16,210
Disposals	-	-	(906)	(546)	(2,036)	(774)	(278)	(4,540)
At 31 December 2019	251,977	135,887	34,914	83,168	58,739	12,351	24,098	601,134
Additions	-	324	379	1,624	2,160	78	7,045	11,610
Disposals	-	(104)	-	-	(733)	-	(152)	(989)
Transfers	-	(8,570)	-	-	-	-	-	(8,570)
At 31 December 2020	251,977	127,537	35,293	84,792	60,166	12,429	30,991	603,185
Depreciation:								
At 1 January 2019	-	58,617	34,382	79,001	49,258	12,204	-	233,462
Charge for the year	-	5,926	345	3,594	1,794	700	-	12,359
Disposals	-	-	(907)	(545)	(593)	(684)	-	(2,729)
At 31 December 2019	-	64,543	33,820	82,050	50,459	12,220	-	243,092
Charge for the year	-	6,962	157	2,425	2,936	12	-	12,492
Disposals	-	-	-	-	(475)	-	-	(475)
At 31 December 2020	-	71,505	33,977	84,475	52,920	12,232	-	255,109
Net carrying amount:								
At 31 December 2020	251,977	56,032	1,316	317	7,246	197	30,991	348,076
At 31 December 2019	251,977	71,344	1,094	1,118	8,280	131	24,098	358,042

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

8.1 Capital work-in-progress

Capital work in progress mainly represents payments towards office renovation and equipment.

8.2 Revaluation of land

The Group changed the accounting policy with respect to the measurement of land on a prospective basis in 2019. Therefore, the fair value of the land was not measured at 1 January 2019.

If land was continued to be measured using the cost model, the carrying amount would be AED 39.3 million.

The fair value of the land was determined using a valuation methodology based on a discounted cash flow model, as there is a lack of comparable market data due to the nature of the property. The valuation at 31 December 2019 was carried by independent valuers with specific valuation experience for similar properties based on assumptions prepared by management and validated by the external valuer. Significant unobservable inputs have been used in estimating the fair value of the property including cash flow projections, future capital expenditures, discount rate and growth rate.

During 2019, management reassessed the significant unobservable inputs used in the valuation performed at 31 December 2018, which resulted in revising certain inputs, and accordingly, the previously recorded gain on revaluation of AED 390 million was decreased by AED 177 million whereby a restated gain of AED 213 million from the revaluation of the land was recognised in OCI in 2018, representing a level 3 revaluation gain. Management believes that the carrying amount of the revalued land at 31 December 2020 does not differ materially from its fair value.

Significant increases (decreases) in the significant unobservable inputs would result in a significantly higher (lower) fair value.

8.3 Depreciation

Depreciation is allocated in profit or loss as follows:

	2020	2019
	AED'000	AED'000
Recognised as cost (note 5.2)	3,493	3,474
Recognised as general and administrative expenses (note 6)	8,999	8,885
	<u>12,492</u>	<u>12,359</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 LEASES

9.1 Group as lessee

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

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

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

	AED'000
<u>Cost:</u>	
As at January 1, 2019 and 2020	35,725
As at December 31, 2020	<u>35,725</u>
<u>Accumulated depreciation:</u>	
Depreciation for the year	4,677
As at December 31, 2019	4,677
Depreciation for the year	4,677
As at December 31, 2020	<u>9,354</u>
<u>Net book value</u>	
As at December 31, 2020	<u>26,371</u>
As at December 31, 2019	<u>31,048</u>

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

	2020	2019
	AED'000	AED'000
Opening balance	32,342	33,694
Interest charge for the year	1,821	1,562
Payment during the year	(8,746)	(2,914)
Closing Balance	<u>25,417</u>	<u>32,342</u>
Current	5,084	7,131
Non-current	<u>20,333</u>	<u>25,211</u>

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 LEASES (CONTINUED)

9.1 Group as lessee (continued)

The Group had total cash outflows for leases of AED 8.8 million in 2020 (2019: AED 2.9 million), non-cash additions to right-of-use assets and lease liabilities of AED 35.7 million and AED 33.7 million, respectively, in 2019 upon adoption of IFRS 16. There are no future cash outflows relating to leases that have not yet commenced at the reporting date.

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

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

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

9.2 Group as lessor

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

Rental income recognised by the Group during the year is AED 55 million (2019: AED 68.9 million).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 INVESTMENT PROPERTIES

The Group's investment properties consist of commercial and residential properties as well as land in Dubai Motor City, which are carried at fair value based on level 3 fair value hierarchy. The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The movement in investment properties during the year was as follows:

	2020	2019
	AED'000	AED'000
At 1 January	4,111,636	4,211,112
Acquisition during the year	-	11,754
Transfer from property, plant and equipment (note 8)	8,570	-
Gain on fair valuation (note 10.2), net	743,549	3,291
Sale of investment properties (note 10.4)	(251,011)	(114,521)
At 31 December	<u>4,612,744</u>	<u>4,111,636</u>

10.1 Transfer from property, plant and equipment

During the year, the Group transferred properties amounting to AED 8.6 million (2019: nil) from property, plant and equipment to investment properties upon change in use.

10.2 Valuation of investment properties

As at 31 December 2020 and 2019, the fair values of the properties are based on valuations performed by Valustrat Consulting FZCO, an accredited independent registered valuer. A valuation model in accordance with that recommended by the International Valuation Standards Council has been applied. The independent valuer provides the fair value of the Group's investment property portfolio every year end.

The independent registered valuer carried out the valuation based on an open market valuation in accordance with RICS Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, adopting the IFRS basis of fair value and using established valuation techniques. The independent valuer reviewed the updated master community development plan for the MotorCity project in forming its view of the fair value of the portfolio as at 31 December 2020 and 2019.

The fair values have been determined by taking into consideration the discounted cash flows where the Company has ongoing lease arrangements. In this regard, the Group's current lease arrangements, which are entered into on an arm's length basis, and which are comparable to those for similar properties in the same location, have been taken into account.

In cases where the Company does not have any on-going lease arrangements, fair values have been determined, where relevant, having regard to recent market transactions for similar properties as well as taking into account of expected changes in the supply of properties in and around the same location as the Group's investment properties. These values are adjusted for differences in key attributes such as property size.

For property under construction, the valuation was determined using residual value approach incorporating a combination of both the income and cost approaches. The market value estimate of these properties is on the assumption that the properties are complete as at the date of valuation, and from

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 INVESTMENT PROPERTIES (CONTINUED)

10.2 Valuation of investment properties (continued)

which appropriate deductions are made for the costs to complete the project in order to estimate the value of the property in its present condition.

Accordingly, based on the above valuation, fair value gains of AED 743.6 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2020 (2019: AED 3.3 million).

The Company's Board of Directors has reviewed the assumptions and methodology used by the independent registered valuer, and in its opinion, these assumptions and valuation methodology are appropriate and prudent as at the reporting date.

Any significant movement in the assumptions used for the fair valuation of investment properties would result in significantly lower/higher fair values of those assets.

10.3 Valuation gain on additional gross floor area

In 2019, the Company had undertaken a full review of the Masterplan for Dubai Motorcity. The Company had submitted a formal request to the concerned regulatory authorities for the issuance of revised affection plans with amended Gross Floor Areas (the "GFA's"). The Company expected to receive the necessary approvals on the revised affection plans in the near future and accordingly adopted the inclusion of this GFA to the value of AED 351 Million in the valuation of the Motorcity land bank for the Group financials as at 31 December 2019.

During the current year, in accordance with the directions of Dubai Development Authority, the company had appointed independent third party surveyors to perform a detailed survey of the entire land bank at Dubai Motorcity. Based on the official third party surveyor report that was issued and received during the current year, the Company has got an attestation from Dubai Land for an additional GFA and accordingly adopted the inclusion of this additional GFA to the value of AED 1,249 Million in the valuation of the Motorcity land bank for the Group financials as at 31 December 2020 (2019: AED 351 million).

10.4 Sale of investment properties

During the year, investment properties with a carrying value of AED 251 million were disposed of for a consideration of AED 160.5 million resulting in a loss of AED 90.5 million.

10.5 Acquisition of investment properties

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

10.6 Description of valuation techniques used and key inputs to valuation of investment properties

The valuations were determined mainly using the income valuation approach or the market (sale comparable) valuation approach based on significant unobservable inputs such that the fair value measurement was classified as level 3.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 INVESTMENT PROPERTIES (CONTINUED)

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

Income valuation approach

In determining the fair value of properties using the income valuation approach, the valuer took into account property specific information such as the current contracted tenancies agreement and forecasted operating expenses. The valuer applied assumptions for capitalization yield rates and estimated market rent, which are influenced by specific characteristics, such as property location, income return and occupancy of each property in the portfolio, to arrive at the final valuation. The significant unobservable inputs include: estimated rental value per square foot., forecasted operating expenses, long-term vacancy rate and discount rate.

For properties that are under development, the valuer used a residual approach, which takes into account the expectations of perceived market participants of the Gross Development Value for an asset assuming development is complete, less Gross Development Cost (which is the expected cost to complete development) in order to arrive at the property value in its current incomplete state. In this type of approach, additional unobservable inputs are used including comparable rent rates, expected future use of the asset, and expected time and cost to complete development.

Market valuation approach

In determining the fair value of properties using the market valuation approach, the valuer took into consideration the price per square foot for recent market transactions for comparable properties in and around the same location of the respective property and/or having the same quality and characteristics of the valued property. The significant unobservable input for this type of valuation mainly represents the price per square foot applied on the property area in determining the value of the respective property.

Other information

Significant increases (decreases) in the significant unobservable inputs would result in a significantly higher (lower) fair values.

The valuation basis and assumptions used for the valuation of investment properties are consistent with those adopted in 2019.

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

11 INVENTORIES

Trading and project related inventories

	2020 AED'000	2019 AED'000
Project related material (net of provision for slow moving materials)	3,607	440
Stock-in-trade	3,405	3,736
Spares and consumables	901	829
	<u>7,913</u>	<u>5,005</u>

Development properties

	2020 AED'000	2019 AED'000
At 31 December	<u>7,504</u>	<u>7,504</u>

Development properties at 31 December 2020 are stated net of provision of AED 1.6 million (2019: AED 1.6 million). During the previous year an amount of AED 9.4 million was reversed from the provision balance in profit or loss.

12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Investments in associates

	2020 AED'000	2019 AED'000
Movement for the year		
Opening balance	481,937	499,757
Share of profit/(loss)	(1,463)	(20,923)
Effect of changes in accounting policy	-	(12,405)
Disposal of an associate (note 27)	(376,385)	-
Transfer to investments at fair value through profit or loss	(1,213)	-
Exchange differences on translation on foreign operation	(15,508)	15,508
Closing balance	<u>87,368</u>	<u>481,937</u>
Profit or loss:		
Share of profit/(loss) in Properties Investment LLC	(9,281)	(29,885)
Share of profit in Palm Hills Development PJSC	7,818	8,962
	<u>(1,463)</u>	<u>(20,923)</u>

Investment in Palm Hills Development

The disposal of the share in the associate resulted a loss on disposal amounting to AED 234.5 million recognized in profit or loss (note 27).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

12 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (CONTINUED)

Investments in associates (continued)

Investment in Palm Hills Development (continued)

	2019 AED'000
Financial position:	
Non-current assets	4,334,616
Current assets	3,955,519
Non-current liabilities	(1,723,406)
Current liabilities	(4,294,904)
Non-controlling interests	(126,890)
Equity	<u>2,144,935</u>
Group's share of equity - 0% (31 December 2019: 12.31%)	264,042
Fai value adjustment of identifiable net assets acquired	<u>121,246</u>
Carrying amount at 31 December	<u><u>385,288</u></u>

Investment in Properties Investment LLC

The Group has a 30% equity interest in Properties Investment LLC, involved in property investments. Properties Investment LLC is a private entity that is not listed on any public exchange. The Group's interest in Properties Investment LLC is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in Properties Investment LLC:

	2020 AED'000	2019 AED'000
Financial position:		
Non-current assets	195,889	214,795
Current assets	670,709	683,813
Non-current liabilities	(281,752)	(371,027)
Current liabilities	(293,621)	(205,419)
Equity	<u>291,225</u>	<u>322,162</u>
Group's share of equity - 30%	<u><u>87,368</u></u>	<u><u>96,649</u></u>
	2020 AED'000	2019 AED'000
Movement for the year		
Opening balance	96,649	138,940
Effect of change in an accounting policy (note 3.2)	-	(12,405)
Share of results	(9,281)	(29,886)
Closing balance	<u><u>87,368</u></u>	<u><u>96,649</u></u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

13 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2020	2019
	AED'000	AED'000
Quoted equities	151,128	196,164
Unquoted equity	756	1,348
	<u>151,884</u>	<u>197,512</u>

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

	2020	2019
	AED'000	AED'000
At 1 January	197,512	298,144
Additions	830,395	2,107,777
Disposals	(833,313)	(2,113,450)
Transfer from investment in associate	1,213	-
Loss on revaluation	(43,923)	(94,959)
At 31 December	<u>151,884</u>	<u>197,512</u>

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

Level 1:

	2020	2019
	AED'000	AED'000
At 1 January	196,164	296,796
Additions	830,395	2,107,777
Disposals	(833,313)	(2,113,450)
Transfer from investment in associate	1,213	-
Total loss, net		
-in the consolidated statement of profit or loss	<u>(43,331)</u>	<u>(94,959)</u>
At 31 December	<u>151,128</u>	<u>196,164</u>

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

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

Investments in quoted funds and quoted equities

During the year, the Group sold investments in funds and invested in various listed equity investments, having a fair value of AED 151.1 million at the reporting date (2019: investments in funds AED 196.2 million), which resulted in a net loss on change in fair value of AED 43.9 million during the year (2019: loss of AED 95 million).

The Group also has an investment in a real estate fund valued at AED 0.8 million at year-end (2019: AED 1.35 million).

14 NON-CURRENT RECEIVABLES

	2020 AED'000	2019 AED'000
Retention receivables	5,167	5,258
Property sales receivables	28,027	28,027
	<u>33,194</u>	<u>33,285</u>

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

15 CONTRACT ASSETS

	2020 AED'000	2019 AED'000
Contract work-in-progress (note 5.3)	215,851	198,721
Unbilled revenue	3,013	18,328
	<u>218,864</u>	<u>217,049</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

16 TRADE AND OTHER RECEIVABLES

	2020 AED'000	2019 AED'000
Financial instruments		
Trade receivables	1,955,931	1,927,019
Retention receivables	52,059	64,405
Property sales receivables	46,104	64,747
	<u>2,054,094</u>	<u>2,056,171</u>
Less: provision for allowance for expected credit losses	<u>(1,837,352)</u>	<u>(1,831,650)</u>
	216,742	224,521
Other receivables	64,441	40,901
Total (A)	<u>281,183</u>	<u>265,422</u>
Non-financial instruments		
Advances to contractors	26,241	13,728
Advances to banks against loan principal and interest (note 23)	70,000	-
Prepayments and advances	17,464	14,224
Total (B)	<u>113,705</u>	<u>27,952</u>
Total (A+B)	<u>394,888</u>	<u>293,374</u>

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

17 TRANSACTIONS WITH RELATED PARTIES

The Group, in the normal course of business, enters into transactions with other enterprises, and individuals which fall within the definition of a related party contained in International Accounting Standard No. 24. Such transactions are on terms and conditions approved by the Group's management.

Balances with related parties in the consolidated statement of financial position represent balances due from an equity accounted investee of AED 10.6 million (2019: AED 20.5 million) and during the year ended 31 December 2020, other related parties amounting to 31.5 million were classified as trade receivables.

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

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

	2020 AED'000	2019 AED'000
Salaries and other short term employee benefits	10,185	11,625
Provision towards employees terminal benefits	514	451
	<u>10,700</u>	<u>12,076</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

18 CASH IN HAND AND AT BANKS

	2020 AED'000	2019 AED'000
Cash in hand	889	734
Cash at banks		
– in deposit accounts held under lien	14,781	16,872
– in current accounts	18,581	42,694
– in other deposit accounts	11,149	15,182
	<u>45,400</u>	<u>75,482</u>

(a) Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash and cash equivalents comprise:		
Cash in hand and at banks (excluding deposits under lien)	19,470	43,428
Bank overdrafts (refer note 27)	<u>(192,235)</u>	<u>(291,323)</u>
	<u>(172,765)</u>	<u>(247,895)</u>

(b) Cash at banks in deposit accounts

Cash at banks in deposit accounts carry interest at commercial rates.

The Group's exposure to interest rate risk and sensitivity analysis of financial assets are disclosed in note 30.

19 SHARE CAPITAL

	2020 AED'000	2019 AED'000
<i>Issued and fully paid up at 31 December</i>		
4,289,540,134 (2018: 4,289,540,134)		
shares of par value of AED 1 each	<u>4,289,540</u>	<u>4,289,540</u>

At 31 December 2020, the share capital comprised of ordinary equity shares. All issued shares are fully paid. The holders of ordinary equity shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the General Assembly of the Company. All shares rank equally with regard to the Company's residual assets.

At 31 December 2020, the authorised share capital of the Company is 7 billion shares.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

20 RESERVES

Statutory reserve

According to the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association, 10% of the annual profit of the Group is appropriated to statutory reserve until such reserve equals 50% of the paid-up share capital of the Company. Such allocations may be ceased when the statutory reserve equals half of the paid-up share capital of the Company. During the current year, the Company has transferred AED 20.1 million to statutory reserve (2019: nil).

Asset revaluation surplus

Changes in the fair value of the Group's land under property, plant and equipment measured at fair value are recognised in OCI and credited to the asset revaluation surplus in equity.

Currency translation reserve

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

21 DIRECTORS' FEES

This represents professional fees to the Company's directors for serving on any committee, for devoting special time and attention to the business or affairs of the Company and for performing services outside the scope of their ordinary activities. During 2020 and 2019 no directors' fees were paid.

22 BASIC AND DILUTED EARNINGS PER SHARE

	2020	2019
<i>(Loss)/profit attributable to shareholders (AED'000)</i>	200,984	(224,281)
Weighted average number of shares	4,289,540,134	4,289,540,134
Basic and diluted earnings per share (AED)	0.047	(0.052)

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

23 BANK LOANS

This note provides information about the contractual terms of the Group's interest-bearing bank loans, which are measured at amortised cost. For more information about the Group's exposure to liquidity risk and interest rate risk, refer note 30.

	2020	2019
	AED'000	AED'000
At 31 December	1,463,313	1,518,304
Less: Current portion	(1,000,257)	(1,011,974)
Non-current portion	463,056	506,330

The bank loans carry interest at commercial rates. Further details related to bank loans are shown below.

The movement in bank loans during the year was as follows:

	2020	2019
	AED'000	AED'000
At 1 January	1,518,304	1,544,913
Availed during the year	47,697	151,586
Repayments during the year	(102,688)	(178,195)
At 31 December	1,463,313	1,518,304

Bank loans mainly include the following facilities:

- (i) In 2014, the Group entered into an agreement with a local bank, to obtain a term loan of AED 1,078.2 million which was utilised by the Group to settle outstanding short-term bank borrowings that existed at that date. This term loan is repayable in 6 equal annual instalments of AED 100 million commencing on 30 June 2016 and a final payment of AED 477.7 million payable on 30 June 2022, in addition to semi-annual interest payments.

During 2016, the Group made a settlement of AED 100 million against the first instalment and an early settlement of AED 500 million against the remaining annual instalments.

As at 31 December 2020, loan amount outstanding is AED 477.7 million (2019: AED 477.7 million). The loan has been classified as a current liability due to breach in contractual payment. This loan is being restructured with the bank

- (ii) During the year 2019, the Company obtained a long-term bank loan from a local bank of AED 12.6 million. The loan is repayable in thirteen quarterly instalments that commenced in December 2019 plus interest. At 31 December 2020, the loan amount outstanding is AED 8.6 million.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

23 BANK LOANS (CONTINUED)

(iii) During 2016, the Group entered into agreement with a local bank to obtain a long-term bank loan amounting to AED 550 million to partially settle another bank loan (refer i above). The loan is repayable in 36 quarterly equal instalments that commenced in September 2016 and carries commercial interest rate. At 31 December 2020, the loan amount outstanding is AED 398.7 million (2019: AED 398.7 million).

As at 31 December 2019, the Company had not complied with one of the bank covenants, and accordingly, the loan was classified as current liability in the consolidated statement of financial position. At 31 December 2020, the loan continues to be classified as a current liability due to breach in contractual payment. As at 31 December 2020, loan amount outstanding is AED 398.7 million (2019: AED 398.7m).

This loan is being restructured with the bank and during the year ended 31 December 2020, the Company has made payments of AED 70 million to the bank (Refer note 16).

(iv) During the year 2016, the Company entered into an agreement with two local banks and obtained a long-term bank loan with a limit of AED 290 million for the construction of "Oia", a residential building in MotorCity. The loan is repayable in 12 quarterly equal instalments commencing in September 2019. At 31 December 2020, the loan amount outstanding is AED 148.6 million (2019: AED 181.6 million). Two instalments of this loan have been deferred by the bank due to Covid-19 pandemic situation (under targeted economic support scheme- TESS), as per guidelines from Central Bank of UAE.

(v) During the year 2018, the Group entered into an agreement with a local bank to obtain a long-term loan amounting to AED 350 million, which was utilised to early settle another bank loan. The new facility is repayable in 39 quarterly instalments on an increasing balance basis that commenced in September 2018 and a final instalment of AED 143.5 million due in March 2028. The loan has a balance of AED 316.8 million at year-end (2019: AED 322.88 million). Three instalments of this loan have been deferred by the bank due to Covid-19 pandemic situation (under targeted economic support scheme- TESS), as per guidelines from Central Bank of UAE

(vi) During the year 2018, the Group entered into an agreement with a local bank to obtain a long-term loan amounting to AED 100 million. The loan is repayable in 24 quarterly equal instalments that commenced in April 2018. The loan has a balance of AED 62.5 million at year-end (2019: AED 70.8 million). Two instalments of this loan have been deferred by the bank due to Covid-19 pandemic situation (under targeted economic support scheme- TESS), as per guidelines from Central Bank of UAE

(vii) Bills discounting facilities having a balance of AED 12.6 million at year-end (2019: AED 23.1 million).

Securities

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

- a. Registered mortgage of lands and properties with a fair value of AED 2,171 million at 31 December 2020 (2019: AED 2,408 million);
- b. Assignment of insurance policies of the mortgaged properties;
- c. Assignment of lease proceeds of certain rental units; and
- d. Corporate guarantees of the Company and certain subsidiaries;
- e. Assignment of receivables; and
- f. Assignment of escrow account of one of the projects

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

24 CONTRACT LIABILITIES

	2020 AED'000	2019 AED'000
Advances from customers - current	84,249	97,667
Advances from customers - non-current	8,118	8,118
Excess billings over project WIP	4,443	4,948
	<u>96,810</u>	<u>110,733</u>

Non-current contract liabilities represent advances received from customers against the sale of properties in accordance with the payment schedules as stated in the respective sale and purchase agreements, whereby the revenue would be recognised upon the handover of the properties.

25 PROVISION FOR STAFF TERMINAL BENEFITS

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

	2020 AED'000	2019 AED'000
At 1 January	34,074	35,447
Provision made during the year	5,947	5,016
Payments made during the year	(7,086)	(6,389)
At 31 December	<u>32,935</u>	<u>34,074</u>

26 TRADE AND OTHER PAYABLES

	2020 AED'000	2019 AED'000
Financial instruments		
Trade payables	323,471	314,222
Retention payables	39,355	39,351
Other payables and accruals (refer (a) below)	874,184	814,885
Total	<u>1,237,010</u>	<u>1,168,458</u>

Other payable and accruals include:

	2020 AED'000	2019 AED'000
Provisions and accruals against contracting business	518,716	518,870
Provision for staff related payables	42,415	29,358
Provisions and accruals for payment to contractors cost	<u>36,504</u>	<u>34,297</u>

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

27 BANK OVERDRAFTS

	2020 AED'000	2019 AED'000
Bank overdrafts	<u>192,235</u>	<u>291,323</u>

Significant terms and conditions

Bank overdrafts have been obtained from local and foreign /banks to finance the working capital requirements of the Group, which carry interest at commercial rates.

Securities

Bank overdrafts are secured by:

- Promissory notes;
- Joint and several guarantees of the Company;
- A letter of undertaking by the Company not to reduce its shareholding in Thermo LLC (“a subsidiary”) as long as the banking facilities are outstanding; and
- Assignment of certain contract and retention receivables.

As at 31 December 2019, the Group was in breach of a contractual clause of one of its overdraft facilities wherein the facility was pledged over the Group’s entire investment in its foreign associate (the “foreign associate”). In July 2020, the Group’s entire investment in the foreign associate was sold by the counterparty at its own discretion and the resulting net sale proceeds amounting to AED 125.5 million were utilized by the counterparty against the outstanding balance under the overdraft facility (note 12).

The Group is currently under advanced stages of extensive discussions with the counterparty to obtain a new overdraft / borrowing facility under fresh covenants and to re-acquire the entire investment previously held in the foreign associate.

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

28 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	2020 AED'000	2019 AED'000
<i>Company and its subsidiaries</i>		
Commitments:		
Capital commitments	<u>34,297</u>	<u>34,297</u>
Contingent liabilities:		
Letters of guarantee	<u>294,460</u>	<u>294,452</u>
<i>An associate</i>		
Contingent liabilities:		
Letters of guarantee	<u>252,500</u>	<u>252,500</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

28 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

During 2016, a Corporate guarantee was issued by the Company in favour of Dubai Islamic Bank PJSC ("DIB") in respect of 50% of the amounts outstanding under the Murabaha facility agreement dated August 2016 between "Properties Investment LLC" and DIB (the "Murabaha Facility Agreement") for the full duration of the Murabaha Facility Agreement.

Contingent liabilities

There are certain claims and contingent liabilities that arise during the normal course of business. The Board of Directors reviews these on a regular basis as and when such complaints and/or claims are received and each case is treated according to its merit and the terms of the relevant contract.

29 SEGMENT REPORTING

Business segments

The Group's activities include four main business segments, namely, real estate property management, contracting activities, investing activities, and sales of goods and services. The details of segment revenue, segment result, segment assets and segment liabilities are as follows:

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

29 SEGMENT REPORTING (continued)

	Real estate	Contracting	Goods and services	Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2020					
Segment revenue	55,020	61,818	259,028	-	375,866
Loss on financial instruments at FVTPL	-	-	-	(43,923)	(43,923)
Share of results of associates	-	-	-	(1,463)	(1,463)
Gain on disposal of an associate	-	-	-	(234,524)	(234,524)
Gain on valuation of properties, net	743,549	-	-	-	743,549
Loss on sale of investment properties	(90,494)	-	-	-	(90,494)
Finance income	2,526	129	-	-	2,655
Other income	51,973	218	5,714	843	58,748
Direct costs	(103,482)	(52,896)	(205,321)	-	(361,699)
Administrative and general expenses	(79,107)	(7,895)	(34,491)	(6,119)	(127,612)
Finance costs	(53,402)	(41,369)	(5,719)	(19,629)	(120,119)
Profit/(loss) for the year	526,583	(39,995)	19,211	(304,815)	200,984
Capital expenditure	7,185	216	4,632	-	12,033
Depreciation	10,178	243	6,748	-	17,169
Segment assets	4,865,732	285,016	552,222	151,516	5,854,486
Investments in associates	-	-	-	87,368	87,368
Total assets	4,865,732	285,016	552,222	238,884	5,941,854
Segment liabilities	1,212,680	1,536,599	191,024	107,417	3,047,720
2019					
Segment revenue	68,929	74,815	279,662	-	423,406
Loss on financial instruments at FVTPL	-	-	-	(94,959)	(94,959)
Share of profit of associates	-	-	-	(20,923)	(20,923)
Gain on valuation of properties, net	3,291	-	-	-	3,291
Finance income	3,193	307	42	-	3,542
Other income	130,345	251	5,122	360	136,078
Direct costs	(41,347)	(63,757)	(218,796)	-	(323,900)
Administrative and general expenses	(89,275)	(18,938)	(37,635)	(18,060)	(163,908)
Finance costs	(66,558)	(46,367)	(7,786)	(53,368)	(174,079)
Profit/(loss) for the year	(4,251)	(53,689)	20,609	(186,950)	(224,281)
Capital expenditure	25,120	305	2,539	-	27,964
Depreciation	10,967	432	5,637	-	17,036
Segment assets	4,704,705	285,625	193,627	197,998	5,381,955
Investment in an associate and joint venture	-	-	-	481,937	481,937
Total assets	4,704,705	285,625	193,627	679,935	5,863,892
Segment liabilities	1,268,845	1,485,740	185,592	215,057	3,155,234

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS

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

	<i>Notes</i>	At fair value through profit or loss AED'000	At amorized cost AED'000	Carrying amount AED'000	Fair value AED'000
31 December 2020					
Financial assets					
Non-current receivables	14	-	33,194	33,194	33,194
Investments at fair value through profit or loss	13	151,884	-	151,884	151,884
Trade and other receivables	16	-	281,183	281,183	281,183
Due from related parties	17	-	7,648	7,648	7,648
Cash in hand and at banks	18	-	45,400	45,400	45,400
Total		151,884	367,425	519,309	519,309
Financial liabilities					
Trade and other payables	26	-	1,237,010	1,237,010	1,237,010
Bank overdrafts	27	-	192,235	192,235	192,235
Bank loans	23	-	1,463,313	1,463,313	1,463,313
Lease liabilities	9	-	25,417	25,417	25,417
Total		-	2,917,975	2,917,975	2,917,975

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS (CONTINUED)

	<i>Notes</i>	At fair value through profit or loss AED'000	At amorized cost AED'000	Carrying amount AED'000	Fair value AED'000
31 December 2019					
Financial assets					
Non-current receivables	<i>14</i>	-	33,285	33,285	33,285
Investments at fair value through profit or loss	<i>13</i>	197,512	-	197,512	197,512
Trade and other receivables	<i>16</i>	-	265,422	265,422	265,422
Due from related parties	<i>17</i>	-	52,018	52,018	52,018
Cash in hand and at banks	<i>18</i>	-	75,482	75,482	75,482
Total		<u>197,512</u>	<u>426,207</u>	<u>623,719</u>	<u>623,719</u>
Financial liabilities					
Trade and other payables	<i>26</i>	-	1,168,458	1,168,458	1,168,458
Bank overdrafts	<i>27</i>	-	291,323	291,323	291,323
Bank loans	<i>23</i>	-	1,518,304	1,518,304	1,518,304
Lease liabilities	<i>21</i>	-	32,342	32,342	32,342
Total		<u>-</u>	<u>3,010,427</u>	<u>3,010,427</u>	<u>3,010,427</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Exposure to credit risk

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

	Notes	2020 AED'000	2019 AED'000
Non-current receivables (refer note below)	14	33,194	33,285
Investments at fair value through profit or loss	13	151,884	197,512
Trade and other receivables (refer note below)	16	281,183	265,422
Due from related parties	17	7,648	52,018
Cash at banks	18	43,846	74,748
		517,755	622,985

Impairment losses

Set out below is the information about the credit risk exposure on the Group's trade and retention receivables using a provision matrix:

	Trade receivables					Total AED'000
	Retentions receivable AED'000	Current AED'000	Past due			
			1-90 days AED'000	91-365 days AED'000	>365 days AED'000	
31 December 2020						
Expected credit loss rate	70.70%	0.00%	18.92%	11.00%	99.28%	
Gross amount	57,226	74,515	58,632	100,900	1,787,549	2,078,822
Expected credit loss rate	40,456	-	11,094	11,095	1,774,707	1,837,352
31 December 2019						
Expected credit loss rate	75.43%	3.00%	24.34%	16.12%	99.90%	
Gross amount	69,663	134,876	25,068	97,451	1,754,924	2,081,982
Expected credit loss rate	52,550	4,053	6,101	15,708	1,753,238	1,831,650

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

The movement in the allowance for expected credit losses in respect of trade and retention receivables during the year is as follows:

	2020	2019
	AED'000	AED'000
At 1 January	1,831,650	1,805,375
Provision for the year (refer note 6)	7,991	26,934
Amounts written off	(2,289)	(659)
At 31 December (note 16)	<u>1,837,352</u>	<u>1,831,650</u>

Foreign currency risk

The Group's exposure to foreign currency risk is mainly related to a banking facility denominated in Egyptian Pounds. A 5% strengthening in the Egyptian Pound against the AED will result in a negative impact of AED 5.2 million on profit or loss and equity (2019: AED 10.5 million). A 5% devaluation in the Egyptian Pound against the AED would have the opposite effect.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

	<i>Notes</i>	Carrying amount AED'000	Contractual cash flows AED'000	On demand AED'000	Less than one year AED'000	1 to 5 years AED'000	More than five year AED'000
Financial liabilities							
31 December 2020							
Non-derivative financial instruments							
Trade and other payables	26	1,237,010	1,237,010	-	1,237,010	-	-
Bank overdrafts	27	192,235	192,235	192,235	-	-	-
Bank loans	23	1,463,313	1,737,167	955,247	170,129	362,478	249,313
Lease liabilities	9	25,417	32,342	-	32,342	-	-
Total		2,917,975	3,198,754	1,147,482	1,439,481	362,478	249,313
31 December 2019							
Non-derivative financial instruments							
instruments							
Trade and other payables	26	1,168,458	1,168,458	-	1,168,458	-	-
Bank overdrafts	27	291,323	291,323	291,323	-	-	-
Bank loans	23	1,518,304	1,737,167	955,247	170,129	362,478	249,313
Lease liabilities		32,342	32,342	-	32,342	-	-
Total		3,010,427	3,229,290	1,246,570	1,370,929	362,478	249,313

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

30 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Group is exposed to interest rate risk on cash at bank, short-term bank borrowings and long-term bank loans (refer notes 16, 19 and 20) which carry variable interest rates.

At the reporting date, the interest rate profile of the Group's variable interest bearing financial liabilities were as follows:

	2020	2019
	AED'000	AED'000
Bank overdrafts (refer note 27)	192,235	291,323
Bank loans (refer note 23)	1,463,313	1,518,304
	<u>1,655,548</u>	<u>1,809,627</u>

Cash flow sensitivity analysis for variable rate instruments

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

	Effect on profit or loss and equity	
	100 bp increase	100 bp decrease
	AED'000	AED'000
31 December 2020		
Variable rate instruments	<u>(16,555)</u>	<u>16,555</u>
31 December 2019		
Variable rate instruments	<u>(18,096)</u>	<u>18,096</u>

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has investments at fair value through profit or loss which are stated at fair value. Also refer to note 13.

	Level 1	Level 3	Total
	AED'000	AED'000	AED'000
31 December 2020			
Investments at FVTPL	<u>151,128</u>	<u>756</u>	<u>151,884</u>
31 December 2019			
Investments at FVTPL	<u>196,164</u>	<u>1,348</u>	<u>197,512</u>

There have been no reclassifications made between the valuation levels during the current year or the previous year.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical accounting estimates and judgements used by management in the preparation of these consolidated financial statements:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Going concern assumption

The Group's management has performed a detailed assessment of the Group's ability to continue as a going concern, which covers a period of twelve months from the reporting date, based on certain identified events and conditions that, individually or collectively, may cast doubt on the Group's ability to continue as going concern.

The Group's management has prepared its business forecast and the cash flow forecast for the twelve months from the reporting date on a conservative basis. The forecasts have been prepared taking into consideration the nature and condition of its business, the degree to which it is affected by external factors and other financial and non-financial data available at the time of preparation of such forecasts.

On the basis of such forecasts, the Group's management is of the opinion that the Group will be able to continue its operations for the next twelve months from the reporting date and that the going concern assumption used in the preparation of these consolidated financial statements is appropriate. The appropriateness of the going concern assumption is reassessed on each reporting date.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of sale of real estate properties

The Group is required to assess each of its contracts with customers for the sale of real estate properties to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the current sale and purchase agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create or enhance an asset that the customer controls as the asset is created or enhanced and the customer receives and consumes the benefits provided by the Group's performance when the asset is transferred to the customer, and accordingly, revenue from such contracts is recognised at a point in time, when the property is handed over to the customer.

The Group also assessed that, in those contracts, the transfer of the legal title of the property is not a criteria in determining the timing of satisfaction of the sale, given that such transfer is usually deferred until full payment from the customer is received, which is considered to be guarantee against receivables.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

Consideration of significant financing component in a contract

The Group's property sales include two alternative payment options for the customer, i.e., payment of the transaction price when the contract is signed and upon handing over of the property, or payment based on a deferred instalments plan. The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in instalments considering the length of time between the customer's payment and the handing over date.

In determining the interest to be applied to the amount of consideration, the Group concluded that the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the property to the amount paid in advance or at the time of handing over) is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception.

Determining the timing of satisfaction of revenue from contracting activities

The Group concluded that revenue from contracting activities is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the services under the contract that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring progress of the contracting activities services because there is a direct relationship between the Group's incurred cost (i.e., actual cost incurred in the satisfaction of the contract) and the transfer of service and goods to the customer. The Group recognises revenue on the basis of the actual cost incurred relative to the total expected cost to complete the project.

Significant influence over an associate

The Group concluded that it has significant influence over Palm Hills Development, an associate, even though it holds less than 20 per cent of the voting rights of the entity. The Group holds 12.47% shareholding in the associate and is represented on the Board of the associate with two members out of eleven i.e. 18%. However, through its participation in the decision making process on the Board of the associate, the Group assessed that significant influence is achieved.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

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

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

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

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Determination of project progress in contracting activities

The Group uses the input method when measuring the progress of the projects and calculating the related contract revenue. Use of input method requires the Group to estimate the costs incurred to date on contracts as a proportion of the total contract costs to be incurred. The accuracy of this estimate has a material impact on the amount of revenue and related profits recognised. Any revision to profit arising from changes in estimates is accounted for in the period when the changes become known.

Useful lives of its property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Provision for warranty expenses

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

Impairment losses on property, plant and equipment and intangible assets

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

Impairment losses on properties held for sale in inventory

The Group's management reviews the held for sale properties under inventory to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recognised in the profit or loss, the management assesses the current selling prices of the property units and the anticipated costs for completion of such property units for properties which remain unsold at the reporting date. If the current selling prices are lower than the anticipated total cost at completion, an impairment provision is recognised for the identified loss event or condition to reduce the cost of development properties to its net realisable value.

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

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment on an annual basis. The Group has carried out a review of the residual values and useful lives of property, plant and equipment as at 31 December 2020 and management has not identified any requirement for an adjustment to the residual values and remaining useful lives of the assets for the current or future periods. This assessment is carried out at each reporting date.

Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model is used, whenever there is a lack of comparable market data because of the nature of certain properties. In addition, the Group measures land under property, plant and equipment at revalued amounts, with changes in fair value being recognised in OCI. The land was valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2020 and 2019 for the investment properties and at 31 December 2020 for land under property, plant and equipment.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Notes 8 and 9.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Provision for obsolete inventory

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

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 30.

Provision against claim and contingent liabilities

The Group's management carries out on a regular basis a detailed assessment of each claim and contingent liabilities that arise during the course of normal business and accordingly makes an assessment of the provision required to settle them. These detailed assessments are based on the past experience of the management in settling these claims and contingent liabilities on commercial terms, weighting of possible outcomes against their associated probabilities. Should the estimate significantly vary, the change will be accounted for as change in estimate and the consolidated financial statements would be significantly impacted in the future.

Leases - Estimating the incremental borrowing rate

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Leases - Estimating the incremental borrowing rate

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

32 COMPARATIVE FIGURES

Reclassifications

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

33 COVID-19 IMPACT

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and its spread across the globe is causing disruptions to businesses and economic activity. During the current period, the Group has not witnessed any material impact on overall business, therefore, management is not anticipating any steep reduction in gross turnover during the rest of the year.

The Group has implemented procedures and protocols during the situation. Remote working plans have been initiated and measures were taken to ensure uninterrupted business.

The Group will continue to monitor impact on its operations and will take necessary actions as needed.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

34 SOCIAL CONTRIBUTIONS

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

Contribution nature	Contribution type	Contribution value
Blood Donation is organized on a periodic basis in coordination with DHA and Latifa Hospital and provided some snacks and beverages for the attending staff and employees donating blood on the day. This was conducted in February and in July 2020.	In-Kind	-
A sanitization and fumigation drive was conducted in Motor City to ensure a clean and hygienic community.	In-Kind	-
Breast Cancer Awareness Campaign was organized for all employees in the company. Pinks masks and Pink T-shirts were distributed to all staff. A webinar on the awareness of Breast Cancer was also conducted in collaboration with Prime Medical.	In-Kind	-
Basic English Language Training was conducted by Smart Life for the employees to enhance communication skills.	In-Kind	-
MEP Technical Trainings and Refresher Trainings were conducted regularly in the Serveu Technical Training Academy and on site. A total of 2,235 Manhours of Training was achieved.	In-Kind	-
Housekeeping Refresher skill trainings were conducted regularly in the Serveu Soft services Academy and on site. A total of 4,390 Manhours of Housekeeping Skills Training was achieved.	In-Kind	-
Participated in multiple other blood donation campaigns	In-Kind	-