

Union Properties
Public Joint Stock Company
and its subsidiaries

Consolidated financial statements
31 December 2022

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated financial statements

31 December 2022

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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 (the "Company") and its subsidiaries ("the Group") for the year ended 31 December 2022. The Directors confirm their responsibility for the preparation of the consolidated financial statements of the Group

Financial results

The Group revenue for 2022 reached to AED 419.2 million (2021: AED 398.7 million), gain on valuation of properties amounted to AED 25.9 million (2021: loss of AED 1,109 million) resulting in a total profit of AED 30 million (2021: loss of AED 966.8 million), and total comprehensive income amounted to AED 30 million (2021: total comprehensive loss of AED 966.8 million).

In accordance with the UAE Federal Law No.32 of 2021, the Company transferred 10% of the Company profit to the Statutory Reserve amounting to AED 3 million (2021: nil).

Financial performance review in a year of uncertainty

However, in 2021, the company was unfortunately confronted with fraud, misconduct, breach of trust, forgery, misappropriation of funds and several other financial violations perpetrated by the management of the Company.

Due to the extent of such violations, the newly appointed Board members conducted a thorough financial and accounting review and appointed forensic expert in order to review the major suspicious transactions.

Preliminary findings of the forensic expert report include many violations committed by the previous management which happened for more than a year; all those findings have negatively impacted the 2021 financial statements.

The investigation is still on-going, and the final damage amount has not been assessed yet.

From December 2021 onwards, an emergency business restructuring program has been created and being implemented by the Managing Director and Executive Committee which significantly changed some of the entity's business models, management team, to address the challenges and increase value for shareholders

Since then, the Group has emphasized its plans on:

- Growth – drive growth to achieve scale efficiencies, improve competitive positioning and increase shareholder value
- Financial performance – improve financial performance of business units to be ahead of sector benchmarks
- Cost efficiency – reducing cost and raising efficiency in operations
- Collection of outstanding receivables

Fiscal discipline has been the primary focus in 2022, which, together with growing annual revenues, allowed the Group to improve financial performance to deliver positive EBITDA

Primary focus was kept to stem the decline in profitability and transforming the Company into an organization that is able to generate sufficient profit and free cash flow on a sustainable basis, a path to ensure stable performance and solid shareholder returns.

Union Properties transformation program consists of three pillars: governance transformation, organizational transformation, and business transformation

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis.

As of 31st December 2022, the Group's current accumulated losses reached an amount of AED 2,901 million from an issued capital of AED 4,290 million hence exceeding 50% of its issued share capital. Therefore, based on article 309 of the UAE Federal Companies Law No (32) of 2021, and article 5 of SCA's Board of Directors' Decision No. (32/R.T) of 2019, the Group is required to call for a General Assembly Meeting to vote on either dissolving the Group or to continue its activity with an appropriate restructuring plan within 30 days of the issue of these consolidated financial statements.

The Group's management team is committed to continuing its cost rationalization effort to further increase its operating profits and to deleverage the Company's Balance sheet. Given the strong economic condition in UAE and the strong Real Estate market in Dubai, now is the right environment for the Company to reinvent itself as a strong Developer in the UAE.

The management of the Group has prepared a short and medium strategy plan leveraged by a long-term vision for a period of three years from the date of these consolidated financial statements and there is high probability that the Group will have adequate resources to continue its operation in the foreseeable future.

Conclusion

The Directors' assessment has been made with reference to the Group's current position and prospects, its strategy and availability of funding, the Board's risk appetite and the Group's principal risks and how these are managed.

In December 2021's the shareholders elected new board members who in turn appointed a new Managing Director; Thereafter, a new senior executive management team was appointed with a main focus to strengthen the supervisory function of internal audit and controls, restructuring the operations to achieve a leaner organization, and recover the misappropriated funds through legal procedures, all while developing a new growth strategy to generate shareholder value.

The Company also continues to reform its corporate culture, renewing corporate ethics, disclosing corporate information appropriately and enhancing compliance-focused management.

Critical lawsuits and claims

It is probable that the Group may encounter a variety of claims or lawsuits with counterparties and/or third parties in the course of conducting its business, due to the legacy of business malpractices from previous management. With respect to these potential lawsuits and claims, the possibility exists that the Group's assertion may not be accepted or that the outcome may be significantly different from that anticipated. As a result, any such judgment/verdict or settlement could significantly affect the Group's business performance

Compliance and reputation

In the wake of the issue of the improper conduct perpetrated by the previous management, the Group conducted a third-party investigation, studied recurrence preventive measures and implementing such measures thoroughly, thereby making a concerted effort to regain the trust of customers and stakeholders.

The Company continues to improve governance, reform the corporate culture, renew corporate ethics, disclose corporate information appropriately and enhance compliance-focused management.

However, compliance issues apply to all actions of all employees, all corporate management team and all directors.

Accordingly, it is difficult to completely prevent such incidents unless the Company itself clearly recognizes the importance of compliance and the need to improve the environment for effective adherence thereto, as well as ensuring that every employee, officer or director truly understands the importance of compliance and acts everyday with compliance in mind. Should the needed governance not fully realized, or any compliance violation recur, the social credibility of the Group and trust in its brand or products could be impaired and significantly affect the Group's business performance.

Risk and Control

The Board of Directors has established standards and principles of internal control in the Company, which aim at providing objective, independent and reliable advice, as well as providing an ideal environment for internal control that meets the requirements of the Board of Directors and contributes to enhancing the role of the Board of Directors, the Audit, Risk & Compliance Committee and the Executive Committee, in order to contribute to the proper performance of their duties, functions and responsibilities. It should also be noted that the responsibilities of the Internal Audit Department are governed by the Charter approved by the Audit Committee and the Board of Directors.

Directors

The Board of Directors comprised of:

Mr. Mohamed Fardan Ali Al Fardan	Chairman
Mr. Abdul Wahab Al Halabi	Vice Chairman
Mr. Amer Abdulaziz Hussain Khansaheb	Board Member and Managing Director
Mr. Faras Abdul Kareem Ismail Hasan Al Ramahi	Board Member
Mr. Darwish Abdulla Ahmed Al Ketbi	Board Member
Mr. Saif Bin Abdulaziz Bin Yagub Alserkal	Board Member
Ms. Abeer Mohammed Omar Bin Haider	Board Member

On behalf of the Board



Mohamed Fardan Ali Al Fardan
Chairman

Independent Auditor's Report To the Shareholders of Union Properties PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Union Properties PJSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants* ("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.

Emphasis of Matters

i) Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to notes 2.8 and 32 of the consolidated financial statements, which state that, despite the Group earning a profit of AED 29.9 million for the year ended December 31, 2022, the Group has accumulated losses of AED 2,901 million and the current liabilities exceed its current assets by AED 1,239 million as at that date. These conditions, along with matters described in note 3, indicate the existence of a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern.

**Independent Auditor's Report
To the Shareholders of Union Properties PJSC**

Report on the Audit of the Consolidated Financial Statements (continued)

Emphasis of Matters (continued)

i) Material Uncertainty Related to Going Concern (continued)

Additionally, as per Article No. (308) of the UAE Federal Law No. (32) of 2021, the management of the Group has prepared a short and medium strategy plan, which is approved by the Shareholders to financially support the Group and its operations for the foreseeable future. On this basis, the consolidated financial statements have been prepared on going concern basis.

ii) Valuation of Investment Properties

Without qualifying our opinion, we further draw your attention on note 11 of the consolidated financial statements, which states that during the previous years, the Group conducted a survey of the Masterplan for Dubai Motorcity (built and non-built area) and submitted a formal request to the concerned regulatory authorities for the issuance of revised affection plans with amended Gross Floor Areas (the "GFA's"). In accordance with the directions of the Dubai Development Authority, the Group appointed approved independent third-party surveyors to conduct a detailed survey of the entire land at the Dubai Motorcity. Based on the official third-party surveyor reports, the Group obtained an attestation from Dubai Land Authority for an additional GFA and received an approval of the Traffic Impact Study from the Road and Transport Authority in 2021.

Management has continued to include the additional GFA, amounting to AED 711.1 million in investment properties under the Motorcity land, based on surveyors report and approvals obtained from aforementioned authorities in prior years, even though formal approval from the Dubai Land Authority is still pending. This information is reflected in the Group's consolidated financial statements as at December 31, 2022 (2021: AED 677 million).

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion dated March 24, 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Emphasis of Matters* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Independent Auditor's Report
To the Shareholders of Union Properties PJSC**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

i) Valuation of Investment Properties

The Group's investment properties portfolio is carried at AED 3,166 million (2021: AED 3,261 million). The Group engaged professionally qualified external valuers to fair value its investment properties. The valuers performed their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation Global Standards. The fair value definition as per RICS Valuation Standards, adopted by the external valuers, complies with the fair value definition under IFRS. The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions.

The existence of significant estimation uncertainty warrants specific audit focus in this area as any error in determining the fair value, could have a material impact on the value of the Group's investment properties and the fair value gain or loss recognised in respect of these investment properties.

Our audit procedures, among others, included:

- We assessed the competence, independence and integrity of the external valuers to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- On a sample basis, performed audit procedures to assess whether the source data used for determining the value are reasonable by comparing it to the underlying supporting information;
- We involved our real estate valuation specialist, who on a sample basis, reviewed valuation methodologies used in the valuation process and challenged the assumptions for key estimates of market rent, cost to complete, future rental income, operating cost, occupancy rates, discount rates, capitalisation and terminal yield rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors;

ii) Valuation of trade and retention receivables

The Group has trade and retention receivables that are overdue and not impaired (as disclosed in note 17 and 31 to these consolidated financial statements). The key associated risk is the recoverability of receivables. Management's related allowance for expected credit losses (ECL) is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

**Independent Auditor's Report
To the Shareholders of Union Properties PJSC**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

ii) Valuation of trade and retention receivables (continued)

Our audit procedures, among others, included:

- We obtained an understanding of the Group's process for estimating ECL and assessed the appropriateness of ECL methodology against the requirements of IFRS 9;
- We assessed the reasonableness of management's key assumptions and judgments made in determining the allowance for ECL, segmenting of receivables and macroeconomic factors; and
- We tested the key inputs of the model such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also assessed the reasonableness of forward-looking factors used by the Group by corroborating them with publicly available information.

iii) Interest-bearing borrowings

Interest-bearing borrowings as at December 31, 2022 amount to AED 873.3 million as stated in note 24 and 28 to the consolidated financial statements, which represent 41% of the total liabilities. Furthermore, the repayment obligations for the next 12-months is AED 531.9 million, including any obligations that are payable on demand.

It is important to note that compliance with the financing covenants and monitoring the liquidity position are important aspects for the audit since they can impact the Group's ability to repay its obligations when those fall due.

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 is based on projected income and expenses of the business and working capital requirements.

**Independent Auditor's Report
To the Shareholders of Union Properties PJSC**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

iii) Interest-bearing borrowings (continued)

Our audit procedures, among others, included:

- a) We have evaluated the assumptions applied by the management to comply with all the debt-covenants and monitor liquidity forecasts, and performed sensitivity analysis as well;
- b) We have evaluated management's future cash flow forecasts, and the process adopted for its preparation. Additionally, we have tested key underlying assumptions such as expected cash inflows from property rentals and sales and associated cash outflows of capital and operating expenditures;
- c) We have evaluated the compliance of debt-covenants and assessed the classification of bank loans. In cases where the debt-covenants are not in compliance, we have ensured that the relevant bank loan is classified as current; and
- d) We have assessed the adequacy of the associated disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises information included in the Directors' report but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Directors' Report prior to date of our auditors' report and which we expect to obtain the remaining sections of the Annual Report after the date of the auditors' report.

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 identified above and, in doing so consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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

Report on the Audit of the Consolidated Financial Statements (continued)

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 IFRS, and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (32) of 2021, 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 auditors' 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 judgement 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**

Report on the Audit of the Consolidated Financial Statements (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 auditors' 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 and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with 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**

Report on the Audit of the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (32) of 2021, we report that:

- i) we have obtained all the information and explanations 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. (32) of 2021;
- iii) the Group has maintained proper books of accounts;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of accounts of the Group;
- v) other than those disclosed in note 14 to the consolidated financial statements, the Group has not purchased any shares and has not made any social contributions during the year ended December 31, 2022;
- vi) note 18 to the consolidated financial statements 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, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended December 31, 2022, any of the applicable provisions of the UAE Federal Law No. (32) of 2021 or in respect of the Group, its Articles of Association, which would materially affect its activities or its consolidated financial position as at December 31, 2022; and
- viii) note 1 disclosed the social contributions made during the year ended December 31, 2022.


GRANT THORNTON



**Dr. Osama El-Bakry
Registration No: 935
Dubai, United Arab Emirates**

March 15, 2023

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 2022

	Notes	2022 AED'000	2021 AED'000
Revenue from contracts with customers	5	419,187	398,699
Direct costs	5	(347,481)	(330,867)
Gross profit		71,706	67,832
Administrative and general expenses	6	(80,529)	(133,020)
Other operating income	7	16,730	20,163
Gain on sale of investment properties	11	2,331	10,834
Operating profit/(loss)		10,238	(34,191)
Gain/(loss) on valuation of investment properties, net	11	25,997	(1,109,302)
Net impairment and loss on financial instruments at FVTPL	14	-	(149,282)
Share of results of equity accounted investees	13	(5,086)	(2,955)
Other income	7	73,661	50,727
Gain from loss of control over a subsidiary	8	-	352,401
Finance income		-	2,017
Finance costs	10, 24 & 28	(74,830)	(76,170)
Profit/(loss) for the year		29,980	(966,755)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		29,980	(966,755)
Basic and diluted earnings per share (AED)	23	0.007	(0.225)

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 4 to 11.


Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of financial position

As at 31 December 2022

	Notes	31 December 2022 AED'000	31 December 2021 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	311,474	312,635
Right-of-use assets	10	10,076	21,694
Investment properties	11	3,166,386	3,260,726
Development properties	12	7,504	7,504
Investments in an associate	13	79,327	84,413
Non-current receivables	15	11,830	4,301
Total non-current assets		3,586,597	3,691,273
Current assets			
Investments at fair value through profit or loss	14	699	756
Inventories	12	4,401	4,732
Contract assets	16	28,847	35,263
Trade and other receivables	17	396,525	425,146
Cash in hand and at banks	19	61,397	65,797
Total current assets		491,869	531,694
Total assets		4,078,466	4,222,967
EQUITY AND LIABILITIES			
Equity			
Share capital	20	4,289,540	4,289,540
Statutory reserve	21	355,976	352,978
Asset revaluation surplus	21	212,689	212,689
Accumulated losses		(2,900,846)	(2,927,828)
Total equity		1,957,359	1,927,379
Non-current liabilities			
Non-current portion of bank loans	24	341,371	309,246
Contract liabilities	25	8,118	8,118
Lease liabilities	10	10,498	17,813
Provision for staff terminal benefits	26	30,630	29,144
Total non-current liabilities		390,617	364,321
Current liabilities			
Trade and other payables	27	1,143,104	1,193,546
Contract liabilities	25	52,824	50,188
Lease liabilities	10	2,624	4,453
Bank overdrafts	28	50,811	113,670
Current portion of bank loans	24	481,127	569,410
Total current liabilities		1,730,490	1,931,267
Total liabilities		2,121,107	2,295,588
Total equity and liabilities		4,078,466	4,222,967

These consolidated financial statements were authorised for issue by the Board of Directors on 10 March 2023


Chairman


Board Member & Managing Director

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 4 to 11.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Operating activities			
Profit/(loss) for the year		29,980	(966,755)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	9	7,145	7,961
Depreciation of right of use assets	10	3,415	4,677
(Gain)/loss on sale of investment properties	11.4	(2,331)	(10,834)
Loss/(gain) on fair valuation of investment properties	11	(25,997)	1,109,302
Share of results of equity accounted investees	13	5,086	2,955
Impairment of Property, plant and equipment		-	26,476
Allowance for expected credit losses	31	1,470	17,999
Allowance for expected credit losses - contract assets	16	6,156	-
Gain on disposal of property, plant and equipment	7	(95)	(7,095)
(Gain)/loss on financial instruments at FVTPL	14	-	(5,361)
Impairment loss on financial instruments at FVTPL		-	154,643
Gain from loss of control over a subsidiary	8	-	(352,401)
Finance income		-	(2,017)
Finance cost		74,830	76,170
<i>Operating cash flows before working capital changes</i>		<u>99,659</u>	<u>55,720</u>
Change in inventories		331	3,181
Change in contract assets		6,416	19,777
Change in trade and other receivables		13,466	(28,425)
Change in due from related parties		-	7,648
Change in trade and other payables and contract liabilities		(95,759)	(157,786)
Change in staff terminal benefits - net		1,486	2,474
<i>Net cash used in from operating activities</i>		<u>25,599</u>	<u>(97,411)</u>
Investing activities			
Additions to property, plant and equipment	9	(6,501)	(10,127)
Additions to and acquisition of investment properties	11	(6,449)	-
Proceeds from/investments in financial instruments at FVTPL, net	14	57	1,846
Proceeds from disposal of property, plant and equipment		612	10,059
Proceeds from sale of investment properties		129,117	250,717
Interest received		-	2,017
Change in deposit with banks		2,695	(149)
<i>Net cash from investing activities</i>		<u>119,531</u>	<u>254,363</u>
Financing activities			
Bank loans availed	24	244,842	73,513
Repayment of bank loans	24	(301,000)	(171,564)
Payment of lease liabilities	10	(4,442)	(4,721)
Interest paid		(23,376)	(29,509)
<i>Net cash used in financing activities</i>		<u>(83,976)</u>	<u>(132,281)</u>
Net decrease in cash and cash equivalents		<u>61,154</u>	<u>24,671</u>
Cash and cash equivalents at the beginning of the year		(60,374)	(172,765)
Overdraft movement due to loss of control over a subsidiary		-	87,720
Cash and cash equivalents at the end of the year	19	<u>780</u>	<u>(60,374)</u>

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 4 to 11.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital AED'000	Statutory reserve AED'000	Asset revaluation surplus AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2021	4,289,540	352,978	212,689	(1,961,073)	2,894,134
Total comprehensive loss for the year				(966,755)	(966,755)
At 31 December 2021	4,289,540	352,978	212,689	(2,927,828)	1,927,379
At 1 January 2022	4,289,540	352,978	212,689	(2,927,828)	1,927,379
Total comprehensive income for the year		2,998	-	26,982	29,980
At 31 December 2022	4,289,540	355,976	212,689	(2,900,846)	1,957,359

The notes from 1 to 33 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on the pages 4 to 11.

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”.

The Group has made no material monetary social contributions during the year ended 31 December 2022.

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. (32) of 2021.

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 2022, 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
Subsidiaries			
Gulf Mechanical A/C Acoustic Manufacturing (GMAMCO) LLC	UAE	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
Gmamco Trading LLC	UAE	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%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
ServeU LLC	UAE	100%	Facilities management, security, mechanical, electrical and plumbing works and energy management services.
Dubai Autodrome LLC	UAE	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
The Fitout LLC	UAE	100%	Manufacturing and interior decoration.
EDACOM Owners Association Management	UAE	100%	Owners Association Management
Al Etihad Real Estate Development	UAE	100%	Real estate development
Union Holding	UAE	100%	Investment in equities.
UPP Capital Investment	UAE	100%	Investment in equities.
Union Malls	UAE	100%	Facilities management services.
UPP Investments LLC	UAE	100%	Investment in equities.
Al Etihad Education	UAE	100%	Investment in educational enterprises & management.
UPP International Investments LLC	UAE	100%	Investment in equities.
Associates			
Properties Investment LLC	UAE	30%	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 32.

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 2022 amounted to AED 873.3 million (AED 822.5 million of bank loans and AED 50.8 million of bank overdrafts). Furthermore, the Group has net current liabilities of AED 1,238 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 32.

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 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 2022 and 2021, 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

Adoption of new and revised International Financial Reporting Standards, amendments and interpretations

(a) Standards, amendments and interpretations effective from January 1, 2022

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Interest Rate Benchmark Reform – Phase 2).
- Amendments to IFRS 4, Insurance contracts – deferral of IFRS 9.

(b) Standards, amendments and interpretations issued but are not yet effective and have not been early adopted by the Group

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

- Amendments to IAS 1, Presentation of Financial Statements, clarify how to classify debt and other liabilities as current or non-current (effective from January 1, 2023).
- Amendments to IFRS 3, Business Combinations: Reference to the Conceptual Framework (effective from January 1, 2022).
- Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets related to Onerous Contracts- Cost of Fulfilling a Contract (effective from January 1, 2022).
- Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (Annual improvements to IFRS Standards 2018-2021) (effective from January 1, 2022, except for IFRS 16, which effective date is not yet decided).
- Amendments to IAS 16, Property, Plant and Equipment related to Proceeds before Intended Use (effective from January 1, 2022).
- IFRS 17, Insurance Contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts (effective from January 1, 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2 (effective from January 1, 2023).
- Amendments to IAS 8, Accounting Policies, Change in Accounting Estimates and Error, related to Definition of Accounting Estimates (effective from January 1, 2023).
- Amendments to IAS 12, Income Taxes, related to assets and liabilities of deferred tax (effective from January 1, 2023).
- Amendments to IFRS 16, related to COVID-19 related rent concessions beyond June 30, 2022 (effective from April 1, 2022).

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;
- Market risk; and
- Capital Management

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 2022 and 2021, 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 (contract assets)

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 31. 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 31.

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 2022 and 2021 is the carrying amounts as illustrated in Note 31.

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 31.

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 31.

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 31.

Capital management

The primary objective of the Group's capital management is to maintain an optimal capital structure in order to support its business thereby increasing shareholder's value and benefits for other stakeholders.

During the last year, the Company's Board of Directors had identified suspected several irregularities and had communicated this to the Regulatory Authorities in UAE. The Company had appointed third party external forensic accountant to investigate the suspected matters and any further matters arising from those irregularities.

The third party external forensic consultant have completed its investigation where they confirmed the findings which included violation of accounting standards, records, and systems to hide the losses incurred by the company by changing the classification of its investments and misappropriation of funds and properties, and all those finding have negatively impacted the 2021 financial statements, and accordingly, the Group decided to record multiple provisions - against their investments at fair value through profit or loss, advances to contractors, Capital work-in-progress, and all other suspected matters arise during the investigation and came to the knowledge of the management and BOD.

Although, the management and BOD will continue to pursue the investigation, and the final amount might differ from the estimate provisions booked during the year ended 31 December 2021.

Based on the results of the ongoing investigation and the indictments by the District Public Prosecutors Office related to misstatements in the Company's annual reports identified by the newly hired management team and the forensic consultant, the Company is under the process of filing several legal cases against the concerned parties.

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 2022			
	Real estate	Contracting	Goods and services	Total
	AED'000	AED'000	AED'000	AED'000
<i>Type of goods or service</i>				
Property rentals	37,435	-	-	37,435
Facility management and maintenance services	-	-	277,410	277,410
Interior architecture	-	40,041	-	40,041
Motor racing services	-	-	47,900	47,900
Sale of goods	-	-	16,401	16,401
Total revenue from contracts with customers	37,435	40,041	341,711	419,187
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	-	-	16,401	16,401
Services transferred over time	37,435	-	325,310	362,745
Goods and services (bundled) transferred over time	-	40,041	-	40,041
Total revenue from contracts with customers	37,435	40,041	341,711	419,187
Direct costs	(32,665)	(34,846)	(279,970)	(347,481)
Gross profit	4,770	5,195	61,741	71,706
For the year ended 31 December 2021				
Segments	Real estate	Contracting	Goods and services	Total
	AED'000	AED'000	AED'000	AED'000
<i>Type of goods or service</i>				
Property rentals	40,780	-	-	40,780
Mechanical, electricidal and plumbing	-	7,153	-	7,153
Facility management and maintenance services	-	-	256,291	256,291
Interior architecture	-	39,943	-	39,943
Motor racing services	-	-	40,837	40,837
Sale of goods	-	-	13,695	13,695
Total revenue from contracts with customers	40,780	47,096	310,823	398,699
<i>Timing of revenue recognition</i>				
Assets and goods transferred at a point in time	-	-	13,695	13,695
Services transferred over time	40,780	7,153	297,128	345,061
Goods and services (bundled) transferred over time	-	39,943	-	39,943
Total revenue from contracts with customers	40,780	47,096	310,823	398,699
Direct costs	(39,135)	(40,704)	(251,028)	(330,867)
Gross profit	1,645	6,392	59,795	67,832

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:

	2022 AED'000	2021 AED'000
Staff costs	165,352	149,923
Inventories recognised as cost	71,036	62,438
Depreciation (note 9.3)	<u>4,768</u>	<u>4,950</u>

5.3 Contract balances

	2022 AED'000	2021 AED'000
Trade and retention receivables (note 15 & 17)	219,849	221,100
Contract assets (note 16)	28,847	35,263
Contract liabilities (note 25)	<u>60,942</u>	<u>58,306</u>

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.

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 2022, no allowance for expected credit losses on contract assets was recognised (2021: 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 25).

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:

	2022 AED'000	2021 AED'000
Within one year	<u>61,392</u>	<u>29,384</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

	2022 AED'000	2021 AED'000
<i>These include the following:</i>		
Staff costs	33,758	52,738
Professional fees and licenses	12,182	22,770
Depreciation of property, plant and equipment (note 9)	2,377	3,011
Depreciation of right of use assets (note 10)	3,415	4,677
Marketing and advertising expenses	2,320	2,654
Expected credit loss expense on receivables (note 31)	1,470	17,999
Office expenses	<u>10,885</u>	<u>12,369</u>

7 OTHER INCOME

	2022 AED'000	2021 AED'000
Write back of liabilities (refer note below)	73,661	50,727
Gain on disposal of property, plant and equipment	95	7,095
Other operating income - miscellaneous income	<u>16,635</u>	<u>13,068</u>
	<u>90,391</u>	<u>70,890</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.

8 LOSS OF CONTROL OVER A SUBSIDIARY

During the previous years, a subsidiary of the group was under liquidation and on 8 August 2021 the court appointed a new liquidator where the Group administratively and operationally lost control over its subsidiary.

Accordingly, the management has assessed the provisions required which is equivalent to the net liabilities due securities and guarantees from the parent company on behalf of the subsidiary at the time of loss of control amounting to AED 781 million which will be retained until such time when further information is available or until further developments take place.

Below is a summary of the results from the above mentioned as at date of the loss of control:

	AED'000
Net equity deficit of the subsidiary	(2,277,636)
Parent company receivable from the subsidiary	<u>1,143,993</u>
Gross (gain) due to loss of control over a subsidiary	<u>(1,133,643)</u>
Provision required against future liabilities and securities	<u>781,242</u>
Net (gain) due to loss of control over a subsidiary	<u>(352,401)</u>

The loss of control resulted a gain of AED 352.4 million after netting all the provisions mentioned above.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 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 2021	251,977	127,537	35,293	84,792	60,166	12,429	30,991	603,185
Additions	-	1,095	92	2,768	762	180	5,230	10,127
Movement from loss of control over a subsidiary	-	(9,354)	-	(5,706)	(12,255)	(252)	-	(27,567)
Disposals	-	(11,110)	-	(162)	(674)	(2)	-	(11,948)
Impairment of Property, plant and equipment	-	-	-	-	-	-	(26,476)	(26,476)
Transfers to investment properties	-	-	-	-	-	-	(8,167)	(8,167)
At 31 December 2021	251,977	108,168	35,385	81,692	47,999	12,355	1,578	539,154
Additions	-	496	202	4,304	-	113	1,386	6,501
Disposals	-	-	(8,646)	(82)	(2,750)	(11)	(167)	(11,656)
At 31 December 2022	251,977	108,664	26,941	85,914	45,249	12,457	2,797	533,999
Depreciation:								
At 1 January 2021	-	71,505	33,977	84,475	52,920	12,232	-	255,109
Charge for the year	-	3,985	206	1,849	1,850	71	-	7,961
Disposals	-	(8,705)	-	(14)	(265)	-	-	(8,984)
Movement from loss of control over a subsidiary	-	(9,354)	-	(5,706)	(12,255)	(252)	-	(27,567)
At 31 December 2021	-	57,431	34,183	80,604	42,250	12,051	-	226,519
Charge for the year	-	3,472	211	2,420	980	62	-	7,145
Disposals	-	-	(8,646)	(82)	(2,290)	(121)	-	(11,139)
At 31 December 2022	-	60,903	25,748	82,942	40,940	11,992	-	222,525
Net carrying amount:								
At 31 December 2022	251,977	47,761	1,193	2,972	4,309	465	2,797	311,474
At 31 December 2021	251,977	50,737	1,202	1,088	5,749	304	1,578	312,635

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

9.1 Capital work-in-progress

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

9.2 Revaluation of land

The Group changed the accounting policy with respect to the measurement of land on a prospective basis in 2022. Therefore, the fair value of the land was not measured at 1 January 2022.

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 2022 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.

9.3 Depreciation

Depreciation is allocated in profit or loss as follows:

	2022	2021
	AED'000	AED'000
Recognised as cost (note 5.2)	4,768	4,950
Recognised as general and administrative expenses (note 6)	2,377	3,011
	<u>7,145</u>	<u>7,961</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 LEASES

10.1 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
Cost:	
As at January 1, 2021	35,725
As at December 31, 2021	35,725
Disposal	(10,726)
As at December 31, 2022	24,999
Depreciation:	
At 1 January 2021	9,354
Charge for the year	4,677
At 31 December 2021	14,031
Depreciation for the year	3,415
Disposal	(2,523)
As at December 31, 2022	14,923
Net book value	
As at December 31, 2022	10,076
As at December 31, 2021	21,694

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

	2022	2021
	AED'000	AED'000
Opening balance	22,266	25,417
Interest charge for the year	1,889	1,570
Payment during the year	(4,442)	(4,721)
Adjustments	(6,591)	-
	13,122	22,266
Current	2,624	4,453
Non-current	10,498	17,813

The maturity analysis of lease liabilities is disclosed in Note 31.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

10 LEASES (CONTINUED)

10.1 Group as lessee (continued)

The Group had total cash outflows for leases of AED 4.4 million in 2022 (2021: AED 4.7 million), non-cash additions to right-of-use assets and lease liabilities were 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 32).

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.

10.2 Group as lessor

The Group has entered into operating leases on its investment property portfolio consisting of commercial and residential properties (see Note 11). 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 37.4 million (2021: AED 40.8 million).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

11 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:

	2022 AED'000	2021 AED'000
At 1 January	3,260,726	4,612,744
Additions during the year	6,449	-
Transfer from property, plant and equipment (note 9)	-	8,167
Gain on fair valuation (note 11.2), net	25,997	(1,109,302)
Sale of investment properties (note 11.4)	(126,786)	(250,883)
At 31 December	<u>3,166,386</u>	<u>3,260,726</u>

11.1 Transfer from property, plant and equipment

During the year, the Group has not transferred any properties from property, plant and equipment to investment properties upon change in use amounting (2021: AED 8.2 million).

11.2 Valuation of investment properties

As at 31 December 2022, the fair values of the properties are based on valuations performed by Land Sterling Property Consultants LLC, accredited independent registered valuers. 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 2022 and 2021.

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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

11 INVESTMENT PROPERTIES (CONTINUED)

11.2 Valuation of investment properties (continued)

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 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 26 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2022 (2021: loss of AED 1,109.3 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.

11.3 Valuation gain on additional gross floor area

During the previous years, the Group had undertaken a full review of the Masterplan for Dubai Motorcity and 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"). Furthermore, in accordance with the directions of Dubai Development Authority, the Group had appointed approved independent third party surveyors to perform a detailed survey of the entire land bank at Dubai Motorcity. Based on the official third party surveyor reports, the Group got an attestation from Dubai Land for an additional GFA and thereafter also got an approval of the Traffic Impact Study from Road and Transport Authority. Based on surveyor reports, valuation and approvals received from the experts and authorities, the management continued with inclusion of the additional GFA to the value of AED 711.1 million in the valuation of the Motorcity land bank in the Group consolidated financial statements as at 31 December 2022 (31 December 2021: AED 677 million).

11.4 Sale of investment properties

During the year, investment properties with a carrying value of AED 126.8 million (2021: AED 250.9 million) were disposed of for a consideration of AED 129.1 million (2021: AED 261.7 million) resulting in a gain of AED 2.3 million (2021: AED 10.8 million).

11.5 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)

11 INVESTMENT PROPERTIES (CONTINUED)

11.5 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 2021.

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)

12 INVENTORIES

Trading and project related inventories

	2022	2021
	AED'000	AED'000
Project related material (net of provision for slow moving materials)	1,442	1,666
Stock-in-trade	324	1,724
Spares and consumables	2,635	1,342
	4,401	4,732

Development properties

	2022	2021
	AED'000	AED'000
At 31 December	7,504	7,504

Development properties at 31 December 2022 are stated net of provision of AED 1.6 million (2021: 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.

13 INVESTMENTS IN AN ASSOCIATE

Investments in associates

	2022	2021
	AED'000	AED'000
Movement for the year		
Opening balance	84,413	87,368
Share of profit/(loss)	(5,086)	(2,955)
Closing balance	79,327	84,413
Profit or loss:		
Share of profit/(loss) in Properties Investment LLC	(5,086)	(2,955)

Union Properties Public Joint Stock Company and its subsidiaries
Notes to the consolidated financial statements (continued)

13 INVESTMENTS IN ASSOCIATE (CONTINUED)

Investments in associates (continued)

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:

	2022	2021
	AED'000	AED'000
Financial position:		
Non-current assets	258,362	412,493
Current assets	448,987	276,911
Non-current liabilities	(5,132)	(741)
Current liabilities	(437,794)	(407,286)
Equity	264,423	281,377
Group's share of equity - 30%	79,327	84,413
	2022	2021
	AED'000	AED'000
Movement for the year		
Opening balance	84,413	87,368
Share of results	(5,086)	(2,955)
Closing balance	79,327	84,413

14 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2022	2021
	AED'000	AED'000
Unquoted equity	699	756

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

Union Properties Public Joint Stock Company and its subsidiaries
Notes to the consolidated financial statements (continued)

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

	2022	2021
	AED'000	AED'000
At 1 January	756	151,884
Additions	-	111,941
Disposals	(57)	(113,787)
Loss on revaluation	-	5,361
Impairment loss on financial instruments at FVTPL	-	(154,643)
At 31 December	699	756

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

Level 1:

	2022	2021
	AED'000	AED'000
At 1 January	-	151,128
Additions	-	111,941
Disposals	-	(113,787)
Total loss, net		
-in the consolidated statement of profit or loss	-	5,361
Impairment loss on financial instruments at FVTPL	-	(154,643)
At 31 December	-	-

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

Investments in quoted funds and quoted equities

During the previous year, the Company's Board of Directors had suspected the legitimacy of these investments which was also part of the forensic investigations (refer note 4).

Funds managed and under custody of several Fund Managing entities have been redeemed and misappropriated, legal actions are being filed for recovery of the misappropriated funds after identifying the identity of the persons to whom the underlying shares or cash were transferred to.

Therefore, the management decided to account for a provision against remaining value of these investments amounting to AED 154.6 million during the year ended 31 December 2021.

The Group also has an investment in a real estate fund valued at AED 0.7 million at end of the period (2021: AED 0.8 million).

Union Properties Public Joint Stock Company and its subsidiaries
Notes to the consolidated financial statements (continued)

15 NON-CURRENT RECEIVABLES

	2022	2021
	AED'000	AED'000
Retention receivables	4,577	4,301
Property sales receivables	7,253	-
	<u>11,830</u>	<u>4,301</u>

The Group's exposure to credit risk and impairment losses related to financial assets are disclosed in note 31.

16 CONTRACT ASSETS

	2022	2021
	AED'000	AED'000
Contract work-in-progress (note 5.3)	34,916	34,851
Unbilled revenue	87	412
Allowance for expected credit losses (note 17.1)	(6,156)	-
	<u>28,847</u>	<u>35,263</u>

17 TRADE AND OTHER RECEIVABLES

	2022	2021
	AED'000	AED'000
Financial instruments		
Trade receivables	250,985	252,750
Retention receivables	10,487	15,579
Property sales receivables	63,839	65,322
	<u>325,311</u>	<u>333,651</u>
Less: allowance for expected credit losses (note 17.1)	(117,292)	(116,852)
	<u>208,019</u>	<u>216,799</u>
Other receivables	52,365	65,545
Total (A)	<u>260,384</u>	<u>282,344</u>
Non-financial instruments		
Advances to contractors (note 17.2)	4,684	11,634
Advances to banks against loan principal and interest (note 24)	112,000	112,000
Prepayments and advances	19,457	19,168
Total (B)	<u>136,141</u>	<u>142,802</u>
Total (A+B)	<u>396,525</u>	<u>425,146</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

17.1 Provision for allowance for expected credit losses

	2022 AED'000	2021 AED'000
Provision against trade receivables	117,292	116,852
Provision against advances to contractors (note 17.2)	<u>90,592</u>	<u>90,592</u>
	207,884	207,444
Provision against contract assets (note 16)	<u>6,156</u>	-
	<u>214,040</u>	<u>207,444</u>

17.2 Advances to contractors

	2022 AED'000	2021 AED'000
Advances to contractors	95,276	102,226
Less: provision for allowance for expected credit losses	<u>(90,592)</u>	<u>(90,592)</u>
	<u>4,684</u>	<u>11,634</u>

Significant payments aggregating to AED 90.6 million were made, between May and October 2022 to a third party vendor. Those payments were documented internally as related to various design and project management contracts, although the management identified that no or negligible service had been received, therefore the Company decided to classify it as advances to contractors.

The Group's exposure to credit risk and impairment losses related to receivables are disclosed in note 31.

18 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.

During the previous year, the Group has entered into a sale and purchase agreement with a related party ("the purchaser") to sell investment properties with a carrying value of AED 172.8 million for a consideration of AED 127 million resulting in a loss of AED 45.8 million, however, no such transactions or agreements were concluded during the year ended 31 December 2022.

The Group's exposure to credit risk and liquidity risk related to related party balances are disclosed in note 31.

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

	2022 AED'000	2021 AED'000
Salaries and other short term employee benefits	5,480	10,939
Provision towards employees terminal benefits	<u>463</u>	<u>734</u>

Union Properties Public Joint Stock Company and its subsidiaries
Notes to the consolidated financial statements (continued)

19 CASH IN HAND AND AT BANKS

	2022	2021
	AED'000	AED'000
Cash in hand	703	1,239
Cash at banks		
– in deposit accounts held under lien	9,806	2,898
– in current accounts	50,888	52,057
– in other deposit accounts	-	9,603
	<u>61,397</u>	<u>65,797</u>

(a) Cash and cash equivalents

	2022	2021
	AED'000	AED'000
Cash and cash equivalents comprise:		
Cash in hand and at banks (excluding deposits under lien)	51,591	53,296
Bank overdrafts (refer note 28)	(50,811)	(113,670)
	<u>780</u>	<u>(60,374)</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 31.

20 SHARE CAPITAL

	2022	2021
	AED'000	AED'000
<i>Issued and fully paid up at 31 December</i>		
4,289,540,134 (2021: 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 2022, 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 2022, 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)

21 RESERVES

Statutory reserve

According to the UAE Federal Law No. (32) of 2021 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 transferred an amount of AED 3 million to statutory reserve given that it incurred a loss (2021: did not make any transfer to statutory reserve given that it incurred a loss).

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.

22 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 2022 and 2021 no directors' fees were paid.

23 BASIC AND DILUTED EARNINGS PER SHARE

	2022	2021
<i>Profit/(loss) attributable to shareholders (AED'000)</i>	29,980	(966,755)
Weighted average number of shares	4,289,540,134	4,289,540,134
Basic and diluted earnings per share (AED)	0.007	(0.225)

24 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 31.

	2022	2021
	AED'000	AED'000
At 31 December	822,498	878,656
Less: Current portion	(481,127)	(569,410)
Non-current portion	341,371	309,246

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

24 BANK LOANS (CONTINUED)

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

	2022	2021
	AED'000	AED'000
At 1 January	878,656	1,463,313
Availed during the year	244,842	73,513
Repayments during the year	(301,000)	(171,564)
Movement from loss of control over a subsidiary	-	(486,606)
At 31 December	<u>822,498</u>	<u>878,656</u>

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. This loan is no longer consolidated these financial statements due to the loss of control of a subsidiary.

- (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 2022, the loan amount outstanding is AED 8.6 million. This loan is no longer consolidated in these financial statements due to the loss of control of a subsidiary.

- (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.

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 2022, the loan continues to be classified as a current liability due to breach in contractual payment. As at 31 December 2022, loan amount outstanding is AED 394.9 million (2021: AED 394.9 million).

This loan is being restructured with the bank and during the year ended 31 December 2022, the Company has made payments of AED 112 million during the previous years to the bank (Refer note 17).

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

24 BANK LOANS (CONTINUED)

(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 payable in 12 quarterly equal instalments commencing in September 2019. At 31 December 2022, the company settled the outstanding loan amount of AED 53.7 million.

(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 for early settlement of another bank loan.

During the current year, the Group has made an early settlement amounting to AED 100 million against this long-term bank loan. At 31 December 2022, the loan amount outstanding is AED 216.8 million (2021: AED 316.8 million) where the payment terms were negotiated into two tranches.

(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. Which is payable in 24 quarterly equal instalments that commenced in April 2018.

The Group made an early settlement of the full outstanding amount AED 49.4 million against this long-term bank loan.

(vii) During the current year, the Group entered into an agreement with a local bank to obtain a long-term loan amounting to AED 155 million. Which is payable in 40 quarterly instalments that commenced in 30 June 2022. The loan has a balance of AED 145.7 million at year-end.

(viii) Bills discounting facilities having a balance of AED 25.1 million at year-end (2021: AED 23.9 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 1,589.3 million at 31 December 2022 (2021: AED 1,605 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)

25 CONTRACT LIABILITIES

	2022 AED'000	2021 AED'000
Advances from customers - current	16,331	4,871
Advances from customers - non-current	8,118	8,118
Excess billings over project WIP	36,493	45,317
	<u>60,942</u>	<u>58,306</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.

26 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.

	2022 AED'000	2021 AED'000
At 1 January	29,144	32,935
Provision made during the year	8,551	8,996
Payments made during the year	(7,065)	(5,710)
Movement from loss of control over a subsidiary	-	(7,077)
At 31 December	<u>30,630</u>	<u>29,144</u>

27 TRADE AND OTHER PAYABLES

	2022 AED'000	2021 AED'000
Financial instruments		
Trade payables	84,205	113,297
Retention payables	2,978	3,589
Other payables and accruals (refer below)	1,055,921	1,076,660
Total	<u>1,143,104</u>	<u>1,193,546</u>

Other payable and accruals include:

	2022 AED'000	2021 AED'000
Provisions and accruals against contracting business	738,652	781,242
Provision for staff related payables	33,505	39,294
Provisions and accruals for payment to contractors cost	<u>274,353</u>	<u>228,118</u>

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 31.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

28 BANK OVERDRAFTS

	2022 AED'000	2021 AED'000
Bank overdrafts	<u>50,811</u>	<u>113,670</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.

Overdrafts amounting to AED 87.7 million as at 31 December 2021 is no longer consolidated in these financial statements due to the loss of control of a subsidiary.

For more information about the Group's exposure to liquidity risk and interest rate risk, refer note 31.

29 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	2022 AED'000	2021 AED'000
<i>Company and its subsidiaries</i>		
Commitments:		
Capital commitments	<u>19,715</u>	<u>28,297</u>
Contingent liabilities:		
Letters of guarantee	<u>224,455</u>	<u>294,460</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)

29 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.

30 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)

30 SEGMENT REPORTING (continued)

	Real estate	Contracting	Goods and services	Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2022					
Segment revenue	37,435	40,041	341,711	-	419,187
Direct costs	(32,665)	(34,846)	(279,970)	-	(347,481)
Gross profit	4,770	5,195	61,741	-	71,706
Administrative and general expenses	(32,568)	(12,102)	(35,649)	(210)	(80,529)
Other operating income	6,645	36	10,049	-	16,730
Gain on sale of investment properties	2,331	-	-	-	2,331
Operating profit/(loss)	(18,822)	(6,871)	36,141	(210)	10,238
Gain on valuation of properties, net	25,997	-	-	-	25,997
Share of results of equity accounted investees	-	-	-	(5,086)	(5,086)
Other income	10,833	-	-	62,828	73,661
Finance costs	(66,290)	(17)	(8,523)	-	(74,830)
Profit/(loss) for the year	(48,282)	(6,888)	27,618	57,532	29,980
Capital expenditure	6,666	73	6,211	-	12,950
Depreciation of property, plant and equipment	2,522	169	4,454	-	7,145
Depreciation of right of use assets	2,500	-	915	-	3,415
Segment assets	3,407,553	39,619	551,680	287	3,999,139
Investments in associates	-	-	-	79,327	79,327
Total assets	3,407,553	39,619	551,680	79,614	4,078,466
Segment liabilities	945,645	832,039	290,930	51,859	2,120,473
2021					
Segment revenue	40,780	47,096	310,823	-	398,699
Direct costs	(39,135)	(40,704)	(251,028)	-	(330,867)
Gross profit	1,645	6,392	59,795	-	67,832
Administrative and general expenses	(66,139)	(8,621)	(53,473)	(4,787)	(133,020)
Other operating income	11,952	238	7,973	-	20,163
Gain on sale of investment properties	10,834	-	-	-	10,834
Operating profit/(loss)	(41,708)	(1,991)	14,295	(4,787)	(34,191)
Gain on valuation of properties, net	(1,109,302)	-	-	-	(1,109,302)
Net impairment and loss on financial instruments at FVTPL	-	-	-	(149,282)	(149,282)
Share of results of equity accounted investees	-	-	-	(2,955)	(2,955)
Other income	50,727	-	-	-	50,727
Gain from loss of control over a subsidiary	352,401	-	-	-	352,401
Finance income	1,973	44	-	-	2,017
Finance costs	(39,267)	(27,685)	(3,925)	(5,293)	(76,170)
Profit/(loss) for the year	(785,176)	(29,632)	10,370	(162,317)	(966,755)
Capital expenditure	9,466	-	8,828	-	18,294
Depreciation of property, plant and equipment	3,568	231	4,162	-	7,961
Depreciation of right of use assets	3,762	-	915	-	4,677
Segment assets	3,522,906	54,224	561,109	315	4,138,554
Investment in an associate and joint venture	-	-	-	84,413	84,413
Total assets	3,522,906	54,224	561,109	84,728	4,222,967
Segment liabilities	1,143,093	838,930	198,726	114,839	2,295,588

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 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:

	Notes	At fair value through profit or loss AED'000	At amortized cost AED'000	Carrying amount AED'000	Fair value AED'000
31 December 2022					
Financial assets					
Non-current receivables	15	-	11,830	11,830	11,830
Investments at fair value through profit or loss	14	699	-	699	699
Trade and other receivables	17	-	260,384	260,384	260,384
Cash in hand and at banks	19	-	61,397	61,397	61,397
Total		699	333,611	334,310	334,310
Financial liabilities					
Trade and other payables	27	-	1,143,104	1,143,104	1,143,104
Bank overdrafts	28	-	50,811	50,811	50,811
Bank loans	24	-	822,498	822,498	822,498
Lease liabilities	10	-	13,122	13,122	13,122
Total		-	2,029,535	2,029,535	2,029,535

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2021

Financial assets

Non-current receivables	15	-	4,301	4,301	4,301
Investments at fair value through profit or loss	14	756	-	756	756
Trade and other receivables	17	-	282,344	282,344	282,344
Cash in hand and at banks	19	-	65,797	65,797	65,797
Total		756	352,442	353,198	353,198

Financial liabilities

Trade and other payables	27	-	1,193,546	1,193,546	1,193,546
Bank overdrafts	28	-	113,670	113,670	113,670
Bank loans	24	-	878,656	878,656	878,656
Lease liabilities	10	-	22,266	22,266	22,266
Total		-	2,208,138	2,208,138	2,208,138

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 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	2022 AED'000	2021 AED'000
Non-current receivables (refer note below)	15	11,830	4,301
Investments at fair value through profit or loss	14	699	756
Trade and other receivables (refer note below)	17	260,384	282,344
Cash at banks	19	60,694	64,558
		333,607	351,959

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:

	<i>Advances to contractors</i>	<i>Retentions receivable</i>	Trade receivables				<i>Total</i>
			<i>Current</i>	<i>Past due</i>			
				<i>1-90 days</i>	<i>91-365 days</i>	<i>>365 days</i>	
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
31 December 2022							
Expected credit loss rate	95.08%	0.00%	0.00%	0.00%	23.38%	79.94%	
Gross amount	95,276	15,064	50,462	31,294	31,816	137,413	361,325
Expected credit loss rate	90,592	-	-	-	7,438	109,854	207,884
31 December 2021							
Expected credit loss rate	88.62%	0.00%	0.00%	2.39%	20.77%	82.81%	
Gross amount	102,226	19,880	66,138	20,792	33,793	132,027	374,856
Expected credit loss rate	90,592	-	2	497	7,020	109,333	207,444

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 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:

	2022	2021
	AED'000	AED'000
At 1 January	207,444	1,843,054
Provision for the year (refer note 6)	1,470	17,999
Amounts written off	(1,030)	-
Movement from loss of control over a subsidiary	-	(1,744,201)
Provision against advances to contractors (note 17.1)	-	90,592
At 31 December (note 17.1)	<u>207,884</u>	<u>207,444</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 (2021: AED 5.2 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)

31 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:

	Notes	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 2022							
Non-derivative financial instruments							
Trade and other payables	27	1,143,104	1,143,104	-	1,143,104	-	-
Bank overdrafts	28	50,811	50,811	50,811	-	-	-
Bank loans	24	822,498	878,656	434,915	134,497	111,529	197,715
Lease liabilities	10	13,122	13,122	-	13,122	-	-
Total		2,029,535	2,085,693	485,726	1,290,723	111,529	197,715
31 December 2021							
Non-derivative financial instruments							
Trade and other payables	27	1,193,546	1,193,546	-	1,193,546	-	-
Bank overdrafts	28	113,670	113,670	113,670	-	-	-
Bank loans	24	878,656	878,656	434,915	134,497	111,529	249,313
Lease liabilities	10	22,266	22,266	-	22,266	-	-
Total		2,208,138	2,208,138	548,585	1,350,309	111,529	249,313

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 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 24) 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:

	2022	2021
	AED'000	AED'000
Bank overdrafts (refer note 28)	50,811	113,670
Bank loans (refer note 24)	822,498	878,656
	<u>873,309</u>	<u>992,326</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 2022		
Variable rate instruments	<u>(8,733)</u>	<u>8,733</u>
31 December 2021		
Variable rate instruments	<u>(9,923)</u>	<u>9,923</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 14.

	Level 1	Level 3	Total
	AED'000	AED'000	AED'000
31 December 2022			
Investments at FVTPL	<u>-</u>	<u>699</u>	<u>699</u>
31 December 2021			
Investments at FVTPL	<u>-</u>	<u>756</u>	<u>756</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)

32 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 consolidated financial statements have been prepared on a going concern basis.

As of 31st December 2022, the Group's current accumulated losses reached an amount of AED 2,901 million from an issued capital of AED 4,290 million hence exceeding 50% of its issued share capital. Therefore, based on article 302 of the UAE Federal Companies Law No (32) of 2021, and article 4 of SCA's Board of Directors' Decision No. (32/R.T) of 2019, the Group is required to call for a General Assembly Meeting to vote on either dissolving the Group or to continue its activity with an appropriate restructuring plan within 30 days of the issue of these consolidated financial statements.

The Group's management team is committed in implementing a thorough cost rationalization plan reducing its operating costs and overheads along with a change in management program which will create impact on entity's business model, financial structure, and management team, to address challenges in order to increase value of the Company for shareholders.

Additionally, the current management has mandated a forensic audit from a third party to assess the financial impact of the mismanagement attributed to the previous management team.

The management of the Group has prepared a short and medium strategy plan leveraged by a long-term vision for a period of three years from the date of these consolidated financial statements and there is high probability that the Group will have adequate resources to continue its operation in the foreseeable future.

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)

32 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)

32 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)

32 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 2022 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 2022 and 2021 for the investment properties and at 31 December 2022 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 the notes.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

32 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 31.

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)

32 SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and assumptions (continued)

Leases - Estimating the incremental borrowing rate (CONTINUED)

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).

33 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.