

Union Properties
Public Joint Stock Company
and its subsidiaries

Consolidated financial statements
31 December 2023

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated financial statements

31 December 2023

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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 2023. The Directors confirm their responsibility for the preparation of the consolidated financial statements of the Group.

To the best of our knowledge, the financial information included in the report fairly present in all material aspects the financial condition, results of operations and cash flows of the Group as of 31 December 2023

Financial results

The Group revenue for 2023 reached to AED 508 million (2022: AED 419.2 million), gain on valuation of properties amounted to AED 506 million (2022: gain of AED 26 million) resulting in a total profit of AED 838 million (2022: gain of 30 million), and total comprehensive income amounted to AED 838 million (2022: total comprehensive gain of AED 30 million).

In accordance with the UAE Federal Law No.32 of 2021, the Company transferred 5% of the Company profit to the Statutory Reserve amounting to AED 42 million (2022: AED 3 million).

Financial performance review

Union Properties PJSC ("Union Properties" or "the Company") (DFM symbol: UPP) achieved a net profit of AED 838 million in 2023 which marks an annual growth of 60% in operating profits and 2694% growth in net profits. The Company's subsidiaries also posted impressive performance, which steered its revenue from contracts with customers to AED 508 million, up from AED 419 million in 2022.

This achievement underscores the exceptional performance of Union Properties and its subsidiaries in achieving sustainable growth amidst market dynamics. The performance reflects a notable shift compared to 2022 with "the Company" registering a net profit of AED 838 million in 2023. It is attributed to several key factors, including the efficiency of Union Properties' approach in enhancing its market position and a marked increase in real estate demand.

The Company's success is also credited to the wise management of its diverse business group, dedication to innovative and sustainable development strategies, a focus on operational efficiency, and a commitment to steering the business in alignment with evolving investor and real estate occupant.

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 previous 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 to review the major suspicious transactions.

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 2023, which, together with growing annual revenues, allowed the Group to improve financial performance to deliver positive EBITDA. Primary focus was kept stemming 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 2023, the Group's current accumulated losses reached an amount of AED 2,105 million from an issued capital of AED 4,290 million hence reaching 49.1% of its issued share capital.

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 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.

Having a diverse portfolio encompassing Residential, Commercial, and Mixed-use developments, "Union Properties" is strategically positioned to capitalise on the increasing opportunities within Dubai's dynamic Real Estate market. The group remains committed to delivering premium products and services to its clients and partners, driven by a noticeable increase in contracts and the wide adoption of the latest technological innovations.

The present rise in net profit is a testament to Union Properties' unwavering dedication to upholding transparency with both the market and its clients.

As Dubai's Real Estate market continues its continuous growth, the group aims to strengthen its expansion and growth plans with a solid progression into the future.

With its robust foundation and a strategic vision, the company is well-positioned to seize new opportunities and play a significant role in Dubai's flourishing Real Estate Sector, further contributing valuable advancements to the industry

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 while 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

The Company continues to improve governance, reforming the corporate culture, renewing corporate ethics, disclosing corporate information appropriately and enhancing compliance-focused management.

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.

We thank the UAE leadership for their vision, aspiration and execution which gives a solid platform for all participants and economy agents to excel and contribute to the growth of the UAE. We also would like to thank the regulators, government bodies, our shareholders, debtholders, customers, partners, and employees who have been our pillars in our journey.

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. Darwish Abdulla Ahmed Al Ketbi	Board Member
Mr. Faras Abdul Kareem Ismail Hasan Al Ramahi	Board Member (Resigned)
Mr. Abdulrahman Hussamuddin Sharaf	Board Member (Replacement of Mr. Faras)
Mr. Saif Bin Abdulaziz Bin Yagub Alserkal	Board Member
Ms. Abeer Mohammed Omar Bin Haider	Board Member (Not nominated herself)
Ms. Ms. Afaf Al-Kontar	Board Member (Elected during AGM)

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, 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including material accounting policies information.

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, 2023, 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 Financial Statements* section of our report. We are independent of the Company in accordance *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants' (including International Independence Standards) ("IESBA Code")*, together with other 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.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to note 2.8 and note 32 to the consolidated financial statements. The Group has accumulated losses of AED 2,105 million and its current liabilities exceed its current assets by AED 263 million as at December 31, 2023. These conditions, along with matters described in note 2.8 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)

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key Audit Matter	How our audit addressed the key audit matter
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<p>i) Valuation of investment properties</p> <p>The Group’s investment properties portfolio is carried at AED 2,957 million (2022: AED 3,163 million) under the fair value model including a net fair value gain recorded amounting to AED 506 million (2022: gain of AED 26 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.</p> <p>The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions.</p> <p>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. Refer to note 11.5 to the consolidated financial statements which includes disclosures regarding the use of estimates and judgements by management in determining the fair valuation of investment properties.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We assessed the competence, independence and integrity of the external valuers, read their terms of engagement 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, we 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. Alongside our valuation specialist, we also held discussions with the Group’s management to assess the appropriateness of methodology adopted and reasonableness of the key valuation assumption used; • We performed sensitivity analysis on the significant assumptions to evaluate the extent of the impact of changes in the key assumptions to the conclusions reached by the management;
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**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)

Key Audit Matter	How our audit addressed the key audit matter
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<p>i) Valuation of investment properties (continued)</p>	<ul style="list-style-type: none"> • We assessed that the conditions are met for the asset to be reclassified as held for sale in compliance IFRS 5 and inspected the underlying supporting evidence and recomputed the related costs to sell for these properties to verify the measurement of the net realisable value; and • We assessed the adequacy and sufficiency of the associated disclosures in the consolidated financial statements, which include the presentation and classification in compliance with the requirements of IFRS's.
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During the year the Group has reclassified investment properties amounting to AED 933 million as held for sale. The key associated risk which warrants specific audit focus in this area is determining the Group's compliance with IFRS 5.

<p>ii) Revenue recognition</p> <p>The Group earns revenues through manufacturing, contracting, trading and services business and recognizes revenue in accordance with IFRS 15. The Group recognises revenue either at point in time or over time depending on the terms of contracts with its customer. Revenue recognition was considered a key audit matter that warrant additional audit focus as it includes key elements of judgements which include analysing whether the contracts comprise one or more performance obligations and determination of whether the performance obligations are satisfied over time or at a point in time and carries the presumed risk of fraud.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of the revenue process implemented by the Group; • We assessed the appropriateness of the revenue recognition accounting policies adopted by the Group and its compliance with International Financial Reporting Standards ("IFRS"); • We performed test of design and implementation of relevant controls for all material components; • On a sample basis, we reviewed the contracts to identify the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time or at a point in time in accordance with the requirements of IFRS 15; • On a sample basis, we tested contracts, payments/completion certificates, lease agreements to ensure the existence and accuracy of the revenue recognised during the year and it's compliance with IFRS; and • We assessed the disclosures made in the consolidated financial statements in relation to IFRS 15.
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**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)

Key Audit Matter	How our audit addressed the key audit matter
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iii) 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 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.

We performed the following audit procedures:

- We obtained an understanding of the Group's process for estimating ECL and assessed the appropriateness of ECL methodology and its compliance with 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.

iv) Write back of liabilities

During the year, the Group has written back liabilities and provisions no longer required amounting to AED 402 million (as disclosed in note 7 to these consolidated financial statements) relating to payable and accruals balances for which it has been determined that there would be no settlement made. The key associated risk which warrants specific audit focus in this area is determining that there is no obligation to settle these liabilities.

We performed the following audit procedures:

- We obtained an understanding of these liabilities and obtained the complete listing of the balances written back during the year;
- On a sample basis, we performed audit procedures to assess whether the write back of liabilities is reasonable by obtaining underlying supporting information such as settlement agreements during the year; and
- The Group has written back provisions no longer required against legal cases for which final verdicts were obtained. On a sample basis, we have traced these amounts to the execution orders to recalculate the liability that has been written back.

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

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

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 auditor's report thereon. We obtained the Directors' Report prior to date of our auditor's report and we expect to obtain the remaining sections of the Annual Report after the date of the auditor's 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.

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 Articles of Association, 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.

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)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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) The Group has not purchased any shares during the year ended December 31, 2023;
- 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, 2023, 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, 2023; and
- viii) As disclosed in note 1 the Group did not have any social contributions made during the year ended December 31, 2023.

**GRANT THORNTON UAE****Dr. Osama El-Bakry
Registration No: 935
Dubai, United Arab Emirates****12 March 2024**

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 2023

		2023	2022
	Notes	AED'000	AED'000
Revenue from contracts with customers	5	508,009	419,187
Direct costs	5	<u>(393,529)</u>	<u>(347,481)</u>
Gross profit		114,480	71,706
Administrative and general expenses	6	(114,012)	(80,529)
Other operating income	7	30,659	16,730
Gain on sale of investment properties	11.4	<u>70,416</u>	<u>2,331</u>
Operating profit		101,543	10,238
Gain on valuation of investment properties, net	11.3	505,880	25,997
Share of results of equity accounted investees	13	(59,413)	(5,086)
Other income	7	401,964	73,661
Finance income		1,716	-
Finance costs	8	<u>(114,073)</u>	<u>(74,830)</u>
Profit for the year		837,617	29,980
Other comprehensive income		-	-
Total comprehensive income for the year		<u>837,617</u>	<u>29,980</u>
Basic and diluted earnings per share (AED)	23	<u>0.195</u>	<u>0.007</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 10.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of financial position

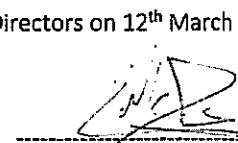
As at 31 December 2023

	Notes	31 December 2023 AED'000	31 December 2022 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	309,684	311,474
Right-of-use assets	10	8,090	10,076
Development properties	12	11,912	9,892
Investment properties	11	2,957,379	3,163,998
Investments in an associate	13	19,914	79,327
Non-current receivables	15	11,575	11,830
Total non-current assets		3,318,554	3,586,597
Current assets			
Investment properties held for sale	11.6	932,960	-
Investments at fair value through profit or loss	14	699	699
Inventories	12	5,852	4,401
Contract assets	16	29,575	28,847
Trade and other receivables	17	413,807	396,525
Cash in hand and at banks	19	78,305	61,397
Total current assets		1,461,198	491,869
Total assets		4,779,752	4,078,466
EQUITY AND LIABILITIES			
Equity			
Share capital	20	4,289,540	4,289,540
Statutory reserve	21	397,857	355,976
Asset revaluation surplus	21	212,689	212,689
Accumulated losses		(2,105,110)	(2,900,846)
Total equity		2,794,976	1,957,359
Non-current liabilities			
Non-current portion of bank loans	24	220,935	341,371
Contract liabilities	25	-	8,118
Lease liabilities	10	8,979	10,498
Provision for staff terminal benefits	26	30,600	30,630
Total non-current liabilities		260,514	390,617
Current liabilities			
Trade and other payables	27	670,269	1,143,104
Contract liabilities	25	23,229	52,824
Lease liabilities	10	2,245	2,624
Bank overdrafts	28	41,589	50,811
Current portion of bank loans	24	986,930	481,127
Total current liabilities		1,724,262	1,730,490
Total liabilities		1,984,776	2,121,107
Total equity and liabilities		4,779,752	4,078,466

These consolidated financial statements were authorised for issue by the Board of Directors on 12th March 2024



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 10.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of cash flows

For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Operating activities			
Profit for the year		837,617	29,980
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	9	7,159	7,145
Depreciation of right of use assets	10	1,986	3,415
Gain on sale of investment properties	11.6	(70,416)	(2,331)
Gain on fair valuation of investment properties	11.3	(505,880)	(25,997)
Share of results of equity accounted investments	13	59,413	5,086
Allowance for expected credit losses	31	(7,290)	1,470
Allowance for expected credit losses - contract assets	16	(2,986)	6,156
Gain on disposal of property, plant and equipment		-	(95)
Write back of liabilities	7	(401,964)	(73,661)
Impairment of property, plant and equipment		3,673	-
Finance income		(1,716)	-
Finance cost	8	114,073	74,830
<i>Operating cash flows before working capital changes</i>		33,669	25,998
Change in inventories		(1,451)	331
Change in contract assets		2,258	6,416
Change in trade and other receivables		(9,737)	13,466
Change in trade and other payables and contract liabilities		(93,501)	(22,098)
Change in staff terminal benefits - net		(30)	1,486
<i>Net cash (used in)/from operating activities</i>		(68,792)	25,599
Investing activities			
Additions to property, plant and equipment	9	(19,178)	(6,501)
Additions to and acquisition of investment properties	11	(1,812)	(4,061)
Additions to development properties	12	(2,020)	(2,388)
Proceeds from financial instruments at FVTPL, net	14	-	57
Proceeds from disposal of property, plant and equipment		-	612
Proceeds from sale of investment properties		261,903	129,117
Interest received		1,716	-
Change in deposit with banks		2,902	2,695
Net cash from investing activities		243,511	119,531
Financing activities			
Bank loans availed	24	101,227	244,842
Repayment of bank loans	24	(130,943)	(301,000)
Payment of lease liabilities	10	(2,977)	(4,442)
Interest paid		(112,994)	(23,376)
<i>Net cash used in financing activities</i>		(145,687)	(83,976)
Net decrease in cash and cash equivalents		29,032	61,154
Cash and cash equivalents at the beginning of the year		780	(60,374)
Cash and cash equivalents at the end of the year	19	29,812	780

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 10.

Union Properties Public Joint Stock Company and its subsidiaries

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital AED'000	Statutory reserve AED'000	Asset revaluation surplus AED'000	Accumulated losses AED'000	Total equity AED'000
At 1 January 2022	4,289,540	352,978	212,689	(2,927,828)	1,927,379
Total comprehensive income for the year	-	-	-	29,980	29,980
Other equity movements					
Transfer to statutory reserve (note 21)	-	2,998	-	(2,998)	-
At 31 December 2022	4,289,540	355,976	212,689	(2,900,846)	1,957,359
At 1 January 2023	4,289,540	355,976	212,689	(2,900,846)	1,957,359
Total comprehensive income for the year	-	-	-	837,617	837,617
Other equity movements					
Transfer to statutory reserve (note 21)	-	41,881	-	(41,881)	-
At 31 December 2023	4,289,540	397,857	212,689	(2,105,110)	2,794,976

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 10.

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 2023.

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 have been prepared on a historical cost basis, except for the revaluation of investment properties, revaluation of the financial assets at fair value through profit or loss at the end of each reporting period, as explained in the accounting policies given below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.3 Comparative information

The consolidated financial statements provide comparative information in respect of the previous period.

2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries on 31 December 2023, as set out in the following pages.

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	Incorporated in	Effective ownership		Principal activities
		2023	2022	
Gulf Mechanical A/C Acoustic Manufacturing (GMAMCO) LLC	UAE	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
Gmamco Trading LLC	UAE	100%	100%	Fire fighting & safety equipment trading, air condition trading, pumps, engines, valves & spare parts trading, water heaters trading, lighting equipment requisites trading.
Gmamco Saudi LLC	KSA	100%	100%	Central air-conditioning, requisites manufacturing, fire fighting equipment assembling.
ServeU LLC	UAE	100%	100%	Facilities management, security, mechanical, electrical and plumbing works and energy management services.
Dubai Autodrome LLC	UAE	100%	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
The Fitout LLC	UAE	100%	100%	Manufacturing and interior decoration.
EDACOM Owners Association Management	UAE	100%	100%	Owners Association Management
Al Etihad Real Estate Development	UAE	100%	100%	Real estate development
Union Holding	UAE	100%	100%	Investment in equities.
UPP Capital Investment	UAE	100%	100%	Investment in equities.
Union Malls	UAE	100%	100%	Facilities management services.
UPP Investments LLC	UAE	100%	100%	Investment in equities.
Al Etihad Education	UAE	100%	100%	Investment in educational enterprises & management.
UPP International Investments LLC	UAE	100%	100%	Investment in equities.
Associates				
Properties Investment LLC	UAE	30%	30%	Investment in and development of properties and property related activities.

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 considers 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)

2.7 Fair Value Measurement (continued)

The Group measures its investment properties at fair value and engages an external valuer to determine the fair value of all its properties.

The determination of the fair value of most of these investment properties is performed using the income approach of valuation, while a residual valuation methodology has been used for investment properties under development.

The Group's determination of fair value for the investment properties requires management to make significant estimates and assumptions related to future rental rates, capitalisation rates and discount rates.

2.8 Financial Commitments

The Group's loans and borrowings as at 31 December 2023 amounted to AED 1,249.5 million (AED 1,207.9 million of bank loans and AED 41.6 million of bank overdrafts). Furthermore, the Group has net current liabilities of AED 263 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 MATERIAL ACCOUNTING POLICIES

3.1 Summary of material 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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Associates and joint ventures (continued)

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.

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

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Current versus non-current classification (continued)

- 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.

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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Contracting activities (continued)

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.

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 is 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. In assessing the recoverability of deferred tax assets, the Group relies on the same forecast assumptions used elsewhere in the financial statements and in other management reports, which, among other things, reflect the potential impact of climate-related development on the business, such as increased cost of production as a result of measures to reduce carbon emission.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Deferred tax (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change.

The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 2023 and 2022, 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	2 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 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.

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.

Development properties

Development properties consists of property being developed principally for sale and is stated at the lower of cost or net realisable value. Cost comprises all direct costs attributable to the design and construction of the property including direct staff costs, and for qualifying assets (if any), borrowing costs capitalised in accordance with the Group's accounting policy. Net realisable value is the estimated selling price in the ordinary course of the business less estimated costs to complete and applicable variable selling expenses.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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*.

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 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 marketplace (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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material 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 CGU's 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 considered. 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.

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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Properties held for sale

The Company classifies certain assets as held for sale in accordance with the requirements of International Financial Reporting Standard IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Assets classified as held for sale are measured at its net realisable value. The estimates of net realisable values are based on the most reliable evidence available at the reporting date of the amount that the Group is expected to realise from the sale of these properties in its ordinary course of business.

Assets held for sale as of 31 December 2023 primarily consist of investment properties. The reclassification of these assets as held for sale signifies the Company's intention to dispose of them within the near term, typically within one year.

The Company discloses the major classes of assets held for sale and the asset's carrying amounts are presented separately from other assets in the consolidated statement of financial position.

Any liabilities directly associated with the assets held for sale are presented separately from other liabilities in the consolidated statement of financial position. Liabilities directly associated with assets held for sale are recognized at their carrying amount, except for liabilities that will be settled after the expected sale date, which are recognized at their present value (if any).

The Company recognizes any gain or loss arising from the derecognition of assets classified as held for sale in profit or loss in the period in which the criteria for classification as held for sale are met.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. When the Group expects some or all a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The expense relating to a provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Leases

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 2 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 recognized 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of material accounting policies (continued)

Leases (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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.2 Changes in accounting policies and disclosures

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

New standards adopted as at 1 January 2023

Some accounting pronouncements which have become effective from 1 January 2023 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)

These amendments do not have a significant impact on these consolidated financial statements and therefore the disclosures have not been made.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Other Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lack of Exchangeability (Amendments to IAS 21)

These amendments do not have a significant impact on these consolidated financial statements in the period of initial application and therefore the disclosures have not been made.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

- IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 Climate-related Disclosures

- IFRS S2 sets out the requirements for identifying, measuring, and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
- The Group is currently assessing the impact of the IFRS S1 and IFRS S2 on the consolidated financial statements.

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:

- Financial Risk
- 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.

Financial risk

The Group's Corporate Finance and Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages financial risks relating to operations of the Group based on internally developed models, benchmarks and forecasts which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of financial risks by using appropriate risk management techniques including using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by management's analysis of market trends, liquidity position and predicted movements in interest rate and foreign currency rates which are reviewed by the management on a continuous basis. The Group does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

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.

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

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 2023 and 2022, 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.

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 on 31 December 2023 and 2022 is the carrying amounts as illustrated in Note 31.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

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.

The responsibility for liquidity risk management rests with the management of the Group, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and committed borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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.

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 to support its business thereby increasing shareholder's value and benefits for other stakeholders.

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 2023			
	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total AED'000
<i>Type of goods or service</i>				
Property rentals	41,836	-	-	41,836
Facility management and maintenance services	-	-	347,720	347,720
Interior architecture	-	43,557	-	43,557
Motor racing services	-	-	57,721	57,721
Sale of goods	-	-	17,175	17,175
Total revenue from contracts with customers	41,836	43,557	422,616	508,009
<i>Timing of revenue recognition</i>				
Goods and services transferred at a point in time	-	-	74,896	74,896
Services transferred over time	41,836	-	347,720	389,556
Goods and services (bundled) transferred over time	-	43,557	-	43,557
Total revenue from contracts with customers	41,836	43,557	422,616	508,009
Direct costs	(22,108)	(34,367)	(337,054)	(393,529)
Gross profit	19,728	9,190	85,562	114,480

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.1 Disaggregated revenue and cost information (Continued)

Segments	For the year ended 31 December 2022			
	Real estate AED'000	Contracting AED'000	Goods and services AED'000	Total 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
<i>Total revenue from contracts with customers</i>	<u>37,435</u>	<u>40,041</u>	<u>341,711</u>	<u>419,187</u>
<i>Timing of revenue recognition</i>				
Goods and services transferred at a point in time	-	-	64,301	64,301
Services transferred over time	37,435	-	277,410	314,845
Goods and services (bundled) transferred over time	-	40,041	-	40,041
<i>Total revenue from contracts with customers</i>	<u>37,435</u>	<u>40,041</u>	<u>341,711</u>	<u>419,187</u>
<i>Direct costs</i>	<u>(32,665)</u>	<u>(34,846)</u>	<u>(279,970)</u>	<u>(347,481)</u>
<i>Gross profit</i>	<u>4,770</u>	<u>5,195</u>	<u>61,741</u>	<u>71,706</u>

5.2 Direct costs information

Direct costs include the following:

	2023 AED'000	2022 AED'000
Staff costs	183,191	165,352
Inventories recognised as cost	164,356	71,036
Depreciation (note 9.2)	4,604	4,768

5.3 Contract balances

	2023 AED'000	2022 AED'000
Trade, property and retention receivables (note 15 & 17)	342,949	219,849
Contract assets (note 16)	29,575	28,847
Contract liabilities (note 25)	23,229	60,942

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

5 REVENUE AND DIRECT COSTS (CONTINUED)

5.3 Contract balances (Continued)

Trade receivables

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

Retention receivable

Retention receivable is 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. Retention receivables serve as guarantees to customers for the proper execution of the contract during and after completion of the projects.

Contract assets

Contract assets represents unbilled revenue arising from the Groups contracting activities which pertains to the Group's right to consideration in exchange for goods or services that it has transferred to the customers. Where payments from customers are received after the associated performance obligations being met and therefore revenue recognised in the profit or loss account, contract assets are recognised. These contracts have remaining performance obligations (unsatisfied or partially unsatisfied) which is expected to be recognised as revenue over the remaining tenor of these contracts. In 2023, no allowance for expected credit losses on contract assets was recognised (2022: 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).

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 of 31 December 2023 are, as follows:

	2023	2022
	AED'000	AED'000
Within one year	<u>39,543</u>	<u>61,392</u>

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 (continued)

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.

6 ADMINISTRATIVE AND GENERAL EXPENSES

	2023 AED'000	2022 AED'000
Staff costs	52,138	33,758
Professional fees and licenses	19,766	12,182
Depreciation of property, plant and equipment (note 9.2)	2,555	2,377
Depreciation of right of use assets (note 10)	1,986	3,415
Marketing and advertising expenses	2,921	2,320
Expected credit loss expense on receivables (note 31)	4,252	1,470
Other expenses	30,394	25,007
	<u>114,012</u>	<u>80,529</u>

7 OTHER OPERATING INCOME / OTHER INCOME

	2023 AED'000	2022 AED'000
Write back of liabilities (refer note below)	401,964	73,661
Other operating income - miscellaneous income	30,659	16,635
Gain on disposal of property, plant and equipment	-	95
	<u>432,623</u>	<u>90,391</u>

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

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

8 FINANCE COSTS

	2023 AED 000'	2022 AED 000'
Interest on bank loans	110,136	71,889
Interest expense on lease liabilities (note 10)	1,079	1,889
Others	<u>2,858</u>	<u>1,052</u>
	<u>114,073</u>	<u>74,830</u>

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 2022	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
Additions	-	9,222	109	7,571	1,751	193	332	19,178
Disposals	-	(3,294)	(68)	-	(848)	-	-	(4,210)
Transfer to investment properties (note 11)	(10,136)	-	-	-	-	-	-	(10,136)
Write off during the year	-	(11,586)	-	(15,596)	-	-	-	(27,182)
At 31 December 2023	241,841	103,006	26,982	77,889	46,152	12,650	3,129	511,649
Depreciation:								
At 1 January 2022	-	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
Charge for the year	-	3,578	217	2,207	1,013	144	-	7,159
Disposals	-	(3,294)	(68)	-	(848)	-	-	(4,210)
Write off during the year	-	(7,913)	-	(15,596)	-	-	-	(23,509)
At 31 December 2023	-	53,274	25,897	69,553	41,105	12,136	-	201,965
Net carrying amount:								
At 31 December 2023	241,841	48,923	1,017	8,336	5,804	634	3,129	309,684
At 31 December 2022	251,977	47,761	1,193	2,972	4,309	465	2,797	311,474

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 Depreciation

Depreciation is allocated in profit or loss as follows:

	2023 AED'000	2022 AED'000
Recognised as cost (note 5.2)	4,604	4,768
Recognised as general and administrative expenses (note 6)	<u>2,555</u>	<u>2,377</u>
	<u><u>7,159</u></u>	<u><u>7,145</u></u>

9.3 Transfer to investment properties

The transfer during the year represents a transfer due to change in use as this asset is now held for the purpose of earning rental income with the management intending to lease these out.

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:

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)

Right of use assets

	AED'000
<u>Cost:</u>	
As at January 1, 2022	35,725
Disposal	(10,726)
As at December 31, 2022	24,999
Disposal	(596)
As at December 31, 2023	24,403
<u>Depreciation:</u>	
At 1 January 2022	14,031
Charge for the year	3,415
Disposal	(2,523)
At 31 December 2022	14,923
Charge for the year	1,986
Disposal	(596)
As at December 31, 2023	16,313
<u>Net book value</u>	
As at December 31, 2023	8,090
As at December 31, 2022	10,076

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

	2023 AED'000	2022 AED'000
Opening balance	13,122	22,266
Interest charge for the year	1,079	1,889
Payment during the year	(2,977)	(4,442)
Adjustments	-	(6,591)
	<u>11,224</u>	<u>13,122</u>
Current	2,245	2,624
Non-current	<u>8,979</u>	<u>10,498</u>

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

The Group had total cash outflows for leases of AED 3 million in 2023 (2022: AED 4.4 million). 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).

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 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 16.7 million exercisable within five years.

10.2 Group as lessor

The Group has entered 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 41.8 million (2022: AED 37.4 million).

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:

	2023 AED'000	2022 AED'000
At 1 January	3,163,998	3,260,726
Additions during the year	1,812	4,061
Transfer from property, plant and equipment (note 9)	10,136	-
Investments held for sale (note 11.6)	(932,960)	-
Gain on fair valuation (note 11.2 & 11.3)	905,880	25,997
Sale of investment properties (note 11.4)	(191,487)	(126,786)
At 31 December	<u>2,957,379</u>	<u>3,163,998</u>

11.1 Transfer from property, plant, and equipment

During the year, the Group has transferred a property from property, plant, and equipment to investment properties upon change in use amounting AED 10.1 million. The transfer during the year represents a transfer due to change in use as this asset is now held for the purpose of earning rental income with the management intending to lease these out.

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

As of 31 December 2023, the fair values of the properties are based on valuations performed by an accredited independent registered valuer. A valuation model in accordance with that recommended by the International Valuation Standards Council has been applied.

The independent valuer provides the fair value of the Group's investment property portfolio every year end. The 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 2023 and 2022.

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 considering of expected changes in the supply of properties in and around the same location as the Group's investment properties. These values are adjusted for differences in key attributes such as property size.

For property under construction, the valuation was determined using residual value approach incorporating a combination of both the income and cost approaches. The market value estimate of these properties is on the assumption that the properties are complete as at the date of valuation, and from 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, gross fair value gains of AED 906 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2023 (2022: gain of AED 26 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 Updates during the year

In previous years, the Group had conducted a survey of the Masterplan for Dubai Motorcity (built and non-built area) and submitted formal requests to the concerned regulatory authorities for the issuance of revised affection plans with amended Gross Floor Areas ("GFA") and requesting to repurpose the land usage (in some cases).

After a long journey and constructive negotiation, the Group announced a major step forward by achieving a settlement with the regulator. Under such agreement, the Group will pay "Dubai land" the amount of AED 400 million by instalments over a three (3) year period, and "Dubai land" is to provide a no objection certificate, allowing the Group to repurpose parts of its Motor City master plan including the Theme Park land.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

11 INVESTMENT PROPERTIES (CONTINUED)

11.3 Updates during the year (continued)

This allowed the Group to apply to the zoning authority for a change of usage permit also allowing the company to develop additional residential zones and/or increased GFA, thereby unlocking further value in Union Properties Motor City master plan, resulting in increased shareholder value.

As an immediate effect of such agreement, those land plots and assets which are part of the Motorcity Masterplan have been revalued – based on revised GFA and usage – availing a conservative appreciation of approximately AED 826 million.

As a result, of the above the Group has recognised a gross fair value gain of AED 906 million which has been set off against the AED 400 million payment to be made to “Dubai land” resulting in a net gain on fair valuation of AED 506 million recognised in the consolidated statement of profit or loss.

11.4 Sale of investment properties

During the year, investment properties with a carrying value of AED 191.4 million (2022: AED 126.8 million) were disposed of for a consideration of AED 261.8 million (2022: AED 129.1 million) resulting in a gain of AED 70.4 million (2022: AED 2.3 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.

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.

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)

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 2022. There were no changes to the valuation techniques during the year.

11.6 Investment properties held for sale

Investment properties held for sale represent plots of land intended to be sold in the normal course of business. The balance of these properties as at the year-end amounted to AED 933 million.

As at 31 December 2023, the Group determined net realisable value of the investment properties held for sale. The estimates of net realisable values are based on the most reliable evidence available at the reporting date of the amount that the Group is expected to realise from the sale of these properties in its ordinary course of business.

12 INVENTORIES

Trading and project related inventories

	2023 AED'000	2022 AED'000
Project related material - gross	2,339	2,705
Stock-in-trade	525	153
Spares and consumables	3,577	2,636
Less : provision for slow moving materials	(589)	(1,093)
	<u>5,852</u>	<u>4,401</u>

Development properties

	2023 AED'000	2022 AED'000
At 1 January	9,892	7,504
Net movement during the year	2,020	2,388
At 31 December	<u>11,912</u>	<u>9,892</u>

Development properties at 31 December 2023 are stated net of provision of AED 12 million (2022: AED 9.8 million).

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

13 INVESTMENTS IN AN ASSOCIATE

Investments in associates

	2023	2022
	AED'000	AED'000
Movement for the year		
Opening balance	79,327	84,413
Share of loss	(59,413)	(5,086)
Closing balance	<u>19,914</u>	<u>79,327</u>
Profit or loss:		
Share of loss in Properties Investment LLC	<u>(59,413)</u>	<u>(5,086)</u>

Investment in Properties Investment LLC

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

	2023	2022
	AED'000	AED'000
Financial position:		
Non-current assets	231,639	258,362
Current assets	307,950	448,987
Non-current liabilities	(3,399)	(5,132)
Current liabilities	(469,810)	(437,794)
Equity	<u>66,380</u>	<u>264,423</u>
Group's share of equity - 30%	<u>19,914</u>	<u>79,327</u>

	2023	2022
	AED'000	AED'000
Movement for the year		
Opening balance	79,327	84,413
Share of results	(59,413)	(5,086)
Closing balance	<u>19,914</u>	<u>79,327</u>

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

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

	2023	2022
	AED'000	AED'000
Unquoted equity	<u>699</u>	<u>699</u>

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

	2023	2022
	AED'000	AED'000
At 1 January	699	756
Disposals	-	(57)
At 31 December	<u>699</u>	<u>699</u>

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

15 NON-CURRENT RECEIVABLES

	2023	2022
	AED'000	AED'000
Retention receivables	4,322	4,577
Property sales receivables	7,253	7,253
	<u>11,575</u>	<u>11,830</u>

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

16 CONTRACT ASSETS

	2023	2022
	AED'000	AED'000
Contract work-in-progress	31,835	34,916
Unbilled revenue	910	87
Allowance for expected credit losses	(3,170)	(6,156)
	<u>29,575</u>	<u>28,847</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

17 TRADE AND OTHER RECEIVABLES

	2023 AED'000	2022 AED'000
Financial assets		
Trade receivables	326,823	250,985
Retention receivables	14,386	10,487
Property sales receivables	100,167	63,839
	441,376	325,311
Less: allowance for expected credit losses (note 17.1)	(110,002)	(117,292)
	331,374	208,019
Other receivables	61,976	52,365
Total (A)	393,350	260,384
Non-financial assets		
Advances to contractors (note 17.2)	2,499	4,684
Advances to banks against loan principal and interest	-	112,000
Prepayments and advances	17,958	19,457
	20,457	136,141
Total (A+B)	413,807	396,525

During the year the Group has extended a loan to its associate amounting to AED 3.4 million which is included in the other receivables balance above (note 18).

17.1 Provision for allowance for expected credit losses

	2023 AED'000	2022 AED'000
Provision against trade receivables	110,002	117,292
Provision against advances to contractors (note 17.2)	90,592	90,592
	200,594	207,884

17.2 Advances to contractors

	2023 AED'000	2022 AED'000
Advances to contractors	93,091	95,276
Less: provision for allowance for expected credit losses	(90,592)	(90,592)
	2,499	4,684

Significant payments aggregating to AED 90.6 million were made, between May and October 2021 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.

Management have recognised a provision for expected credit loss against the balance based on historical credit loss experience based on past due status which has been adjusted as appropriate to reflect current conditions and future economic conditions. The Group's exposure to credit risk and impairment losses related to receivables are disclosed in note 31.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

18 TRANSACTIONS WITH RELATED PARTIES

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

During the year the Group has extended a loan to its associate AED 3.4 million which is recognized in the consolidated financials carrying an interest of 2.75% + 3 months EIBOR

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

	2023 AED'000	2022 AED'000
Salaries and other short term employee benefits	8,554	5,480
Director's fees paid during the year	1,400	1,400
Provision towards employees terminal benefits	471	463

19 CASH IN HAND AND AT BANKS

	2023 AED'000	2022 AED'000
Cash in hand	1,054	703
Cash at banks		
– in deposit accounts held under lien	6,904	9,806
– in current accounts	70,347	50,888
	<u>78,305</u>	<u>61,397</u>

(a) Cash and cash equivalents

	2023 AED'000	2022 AED'000
Cash and cash equivalents comprise:		
Cash in hand and at banks (excluding deposits under lien)	71,401	51,591
Bank overdrafts (refer note 28)	(41,589)	(50,811)
	<u>29,812</u>	<u>780</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.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

20 SHARE CAPITAL

	2023 AED'000	2022 AED'000
<i>Issued and fully paid up at 31 December</i>		
4,289,540,134 (2022: 4,289,540,134)		
shares of par value of AED 1 each	<u>4,289,540</u>	<u>4,289,540</u>

On 31 December 2023, 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.

On 31 December 2023, the authorised share capital of the Company is 7 billion shares.

21 RESERVES

Statutory reserve

According to the UAE Federal Law No. (32) of 2021 and the Company's Articles of Association, 5% 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 41.9 million (2022: AED 3 million) to statutory reserve.

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.

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 - refer to note 18.

23 BASIC AND DILUTED EARNINGS PER SHARE

	2023	2022
<i>Profit/(loss) attributable to shareholders (AED'000)</i>	837,617	29,980
Weighted average number of shares	<u>4,289,540,134</u>	<u>4,289,540,134</u>
Basic and diluted earnings per share (AED)	<u><u>0.195</u></u>	<u><u>0.007</u></u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

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.

	2023	2022
	AED'000	AED'000
At 31 December	1,207,865	822,498
Less: Current portion	(986,930)	(481,127)
Non-current portion	<u>220,935</u>	<u>341,371</u>

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

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

	2023	2022
	AED'000	AED'000
At 1 January	822,498	878,656
Availed during the year	101,227	244,842
Repayments during the year	(130,943)	(301,000)
Movement due to the loan restructure during the year (refer note i)	487,192	-
Settlement against advances to bank (refer note iv)	(72,109)	-
At 31 December	<u>1,207,865</u>	<u>822,498</u>

Bank loans mainly include the following facilities:

- (i) During the current year, the Group entered into an agreement with a local bank as per the term sheet signed between the parties. Under this term sheet, the Group will pay a settlement amount of AED 850 million in instalments within nine months as of the date of executing the agreement.
- (ii) In 2022, the Group entered into an agreement with another local bank to obtain a long-term loan of AED 155 million which is payable in 40 quarterly instalments.
- (iii) Bills discounting facilities having a balance of AED 29.6 million at year-end (2022: AED 25.1 million).
- (iv) During the previous years the company has paid an advance of AED 112 million against one of their loans out of which AED 72.1 million was adjusted against the principal and AED 39.9 million against the interest during the period.

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 1,856 million on 31 December 2023 (2022: AED 1,589 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

	2023 AED'000	2022 AED'000
Excess billings over project WIP - current	23,229	36,493
Advances from customers - current	-	16,331
Advances from customers - non-current	-	8,118
	<u>23,229</u>	<u>60,942</u>

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 whereas the excess billing over payments arises as a result of the Group's contracting activities undertaken during the year.

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.

	2023 AED'000	2022 AED'000
At 1 January	30,630	29,144
Provision made during the year	5,542	8,551
Payments made during the year	(5,572)	(7,065)
At 31 December	<u>30,600</u>	<u>30,630</u>

27 TRADE AND OTHER PAYABLES

	2023 AED'000	2022 AED'000
Financial instruments		
Trade payables	451,013	84,205
Retention payables	2,265	2,978
Other payables and accruals	216,991	1,055,921
Total	<u>670,269</u>	<u>1,143,104</u>

Other payables and accruals include:

	2023 AED'000	2022 AED'000
Provisions and accruals against contracting business	2,492	738,652
Provision for staff related payables	32,338	33,505
Provisions and accruals for payment to contractors cost	<u>166,977</u>	<u>274,353</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

	2023 AED'000	2022 AED'000
Bank overdrafts	<u>41,589</u>	<u>50,811</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:

- Joint and several guarantees of the Company
- Assignment of certain contract and retention receivables.

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

29 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments and contingent liabilities

	2023 AED'000	2022 AED'000
<i>Company and its subsidiaries</i>		
Commitments:		
Capital commitments	<u>-</u>	<u>19,715</u>
Contingent liabilities:		
Letters of guarantee	<u>27,901</u>	<u>224,455</u>
<i>An associate</i>		
Contingent liabilities:		
Letters of guarantee	<u>-</u>	<u>252,500</u>

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.

The associate has an ongoing litigation with its customer which casts a doubt on the recoverability of the trade receivable balance from that customer amounting to AED 334 million. The associate has filed a complaint to the Dubai Ruler's Court and sought their intervention who is undertaking investigations and reviewing the submissions & responses. A committee has also been formed to review the matters relating to the complaint.

The associate however believes that they have sufficient security against the receivable from the customer and the likelihood of success of the claim against the customer is high. Nevertheless, the possibility of recovering the amount is uncertain in view of ongoing litigation.

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

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
2023					
Segment revenue	41,836	43,557	422,616	-	508,009
Direct costs	(22,108)	(34,367)	(337,054)	-	(393,529)
Gross profit	19,728	9,190	85,562	-	114,480
Administrative and general expenses	(56,323)	(8,245)	(49,429)	(15)	(114,012)
Other operating income	14,087	1,617	14,955	-	30,659
Gain on sale of investment properties	70,416	-	-	-	70,416
Operating profit/(loss)	47,908	2,562	51,088	(15)	101,543
Gain on valuation of properties, net	505,880	-	-	-	505,880
Share of results of equity accounted investees	-	-	-	(59,413)	(59,413)
Other income	392,742	-	-	9,222	401,964
Finance income	1,716	-	-	-	1,716
Finance costs	(99,488)	-	(14,585)	-	(114,073)
Profit/(loss) for the year	848,758	2,562	36,503	(50,206)	837,617
Capital expenditure	4,159	71	6,451	-	10,681
Depreciation of property, plant and equipment	-	159	7,000	-	7,159
Depreciation of right of use assets	1,426	-	560	-	1,986
Segment assets	4,104,054	47,208	608,283	293	4,759,838
Investments in associates	-	-	-	19,914	19,914
Total assets	4,104,054	47,208	608,283	20,207	4,779,752
Segment liabilities	1,592,413	40,759	308,967	42,637	1,984,776
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	4,278	73	6,211	-	10,562
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
Investment in associate	-	-	-	79,327	79,327
Total assets	3,407,553	39,619	551,680	79,614	4,078,466
Segment liabilities	946,279	832,039	290,930	51,859	2,121,107

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 and cash in hand and at banks. Financial liabilities of the Group include trade and other payables, 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:

31 December 2023

	Notes	At fair value through profit or loss AED'000	At amortized cost AED'000	Total amount AED'000
Financial assets				
Non-current receivables	15	-	11,575	11,575
Investments at fair value through profit or loss	14	699	-	699
Trade and other receivables	17	-	393,350	393,350
Cash in hand and at banks	19	-	78,305	78,305
Total		699	483,230	483,929
Financial liabilities				
Trade and other payables		-	453,278	453,278
Bank overdrafts	28	-	41,589	41,589
Bank loans	24	-	1,207,865	1,207,865
Lease liabilities	10	-	11,224	11,224
Total		-	1,713,956	1,713,956

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2022

	Notes	At fair value through profit or loss AED'000	At amortized cost AED'000	Total amount AED'000
Financial assets				
Non-current receivables	15	-	11,830	11,830
Investments at fair value through profit or loss	14	699	-	699
Trade and other receivables	17	-	260,384	260,384
Cash in hand and at banks	19	-	61,397	61,397
Total		699	333,611	334,310
Financial liabilities				
Trade and other payables		-	87,183	87,183
Bank overdrafts	28	-	50,811	50,811
Bank loans	24	-	822,498	822,498
Lease liabilities	10	-	13,122	13,122
Total		-	973,614	973,614

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	2023 AED'000	2022 AED'000
Non-current receivables (refer note below)	15	11,575	11,830
Trade and other receivables (refer note below)	17	393,350	260,384
Cash at banks	19	77,251	60,694
		<u>482,176</u>	<u>332,908</u>

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> AED'000	<i>Retentions receivable</i> AED'000	Trade receivables				<i>Total</i> AED'000
			<i>Current</i> AED'000	<i>Past due</i>			
				<i>1-90 days</i> AED'000	<i>91-365 days</i> AED'000	<i>>365 days</i> AED'000	
31 December 2023							
Expected credit loss rate	97.32%	38.53%	0.00%	4.66%	32.12%	72.47%	
Gross amount	93,091	18,708	88,289	86,454	28,367	123,713	438,622
Expected credit loss	<u>90,592</u>	<u>7,209</u>	<u>-</u>	<u>4,031</u>	<u>9,112</u>	<u>89,650</u>	<u>200,594</u>
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	<u>90,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,438</u>	<u>109,854</u>	<u>207,884</u>

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:

	2023	2022
	AED'000	AED'000
At 1 January	207,884	207,444
Provision for the year (refer note 6)	4,252	1,470
Amounts written off	(11,542)	(1,030)
At 31 December (note 17.1)	200,594	207,884

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 1.8 million on profit or loss and equity. 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:

	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 2023						
Non-derivative financial instruments						
Trade and other payables	27 670,269	670,269	-	670,269	-	-
Bank overdrafts	28 41,589	41,589	41,589	-	-	-
Bank loans	24 1,207,865	1,351,141	12,300	918,876	227,984	191,981
Lease liabilities	10 11,224	13,423	-	2,245	11,178	-
Total	1,930,947	2,076,442	53,934	1,591,390	239,162	192,626
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	16,458	-	2,624	13,384	-
Total	2,029,535	2,089,029	485,726	1,280,225	124,913	197,715

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 note 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:

	2023 AED'000	2022 AED'000
Bank overdrafts (refer note 28)	41,589	50,811
Bank loans (refer note 24)	1,207,865	822,498
	<u>1,249,454</u>	<u>873,309</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 AED'000	100 bp decrease AED'000
31 December 2023		
Variable rate instruments	<u>(12,495)</u>	<u>12,495</u>
31 December 2022		
Variable rate instruments	<u>(8,733)</u>	<u>8,733</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 AED'000	Level 3 AED'000	Total AED'000
31 December 2023			
Investments at FVTPL	<u>-</u>	<u>699</u>	<u>699</u>
31 December 2022			
Investments at FVTPL	<u>-</u>	<u>699</u>	<u>699</u>

Union Properties Public Joint Stock Company and its subsidiaries

Notes to the consolidated financial statements (continued)

31 FINANCIAL INSTRUMENTS (CONTINUED)

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

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 2023, the Group's current accumulated losses reached an amount of AED 2,105 million from an issued capital of AED 4,290 million which does not exceed 50% of its issued share capital.

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.

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)

Revenue from contracts with customers (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 Properties Investments LLC, an associate. The Group holds 30% shareholding in the associate and is represented on its Board. 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 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 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.

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.

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)

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 2023 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 of 31 December 2023 and 2022 for the investment properties and at 31 December 2023 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.

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.

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 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.

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.