Aldar Investment Properties LLC

BOARD OF DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Aldar Investment Properties LLC

BOARD OF DIRECTORS' REPORT

31 DECEMBER 2018

BOARD OF DIRECTORS' REPORT
For the year ended 31 December 2018

On behalf of the Board of Directors, I am delighted to present the consolidated audited financial statements of Aldar Investment Properties LLC (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

Principal activities
The principal activities of the Group are management of real estate assets including offices, malls, hotels, golf courses, beach clubs, restaurants and cooling assets.

Financial results
The financial results of the Group have been presented in the consolidated statement of income included in these consolidated financial statements.

Financial statements
The Directors have reviewed and approve the consolidated financial statements of the Group for the year ended 31 December 2018.

Directors
The members of the Board of Directors as of 31 December 2018 are:

Mr. Talal Al Dhiyebi	Chairman and non-executive director
Mr. Jassem Saleh Busaibe	Chief Executive Officer
Mr. Fahad Juma Al Ketbi	Non-executive director
Mr. Gregory Howard Fewer	Non-executive director
Mr. Jahedur Rehman	Non-executive director

Release
The Directors release the external auditor and the management of the Company from liabilities in connection with their duties for the year ended 31 December 2018.

On behalf of the Board of Directors

Talal Al Dhiyebi
Chairman

27 May 2019

Aldar Investment Properties LLC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

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Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHARE HOLDERS OF

ALDAR INVESTMENT PROPERTIES LLC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Aldar Investment Properties LLC (the "Company") and its subsidiary (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

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 period. 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.

(a) *Basis of preparation*
The financial statements of the Group are prepared using the pooling of interest method of accounting and have been presented as a continuation of the Aldar Asset Management Business (as defined in note 2). The comparative information and the financial results of the Group before the incorporation of the Company, are those of the continuing asset management business of Aldar Properties PJSC (the Ultimate Parent as defined in note 1) and have been carved-out from the consolidated financial statements of the Ultimate Parent. The presentation of the continuation of Aldar Asset Management Business was assessed as key audit matter as it involves judgement in respect of identification and extraction of all relevant activities of Aldar Asset Management Business in the periods presented, including estimates for the allocation of shared expenses to the Aldar Asset Management Business.

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(a) *Basis of preparation* continued

For the purpose of our audit of the comparative information and the financial results of the Group before the incorporation of the Company, we understood the management processes and the relevant controls around identification and extraction of all relevant activities of the Aldar Asset Management Business and assessed the design and operative effectiveness of these controls. We also obtained an understanding of the judgements in relation to identification of assets and liabilities as well as allocation of revenue and expenses.

With respect to the assets and liabilities, we performed procedures to test the completeness of the assets and liabilities in relation to the Aldar Asset Management Business included in the financial statements of the Group. We also performed procedures to assess whether the classification and the accounting treatment of these assets and liabilities are in accordance with IFRS.

With respect to items of income and expenses, we performed procedures to test the completeness and reasonableness of the income and expenses attributed to Aldar Asset Management Business, including the allocation of certain expenses to the Aldar Asset Management Business.

(b) *Valuation of investment properties*

The valuation of investment properties is a key audit matter given the degree of complexity involved in valuation and the significance of the judgements and estimates made by management. The property valuations were carried out by external valuers (the "Valuers"). In determining a property's valuation the Valuers take into account property-specific information such as the current tenancy agreements and rental income and apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the valuation (see notes 4.2 and 7 to the consolidated financial statements).

We read the valuation reports for properties and assessed that the valuation approach for each was in accordance with the established standards for valuation of properties and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

We assessed the Valuers' independence, qualification and expertise and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of a sample of properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside expected ranges or otherwise unusual, we obtained audit evidence to support the explanations provided by management.

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analysed assumptions such as estimated rental values, service charges and occupancy levels against historical trends, published benchmarks or recent transactions. For break options, we inquired from management their assessment, based on correspondence with the tenants, whether these options would be exercised and corroborated management assessment with assumptions used by Valuers in valuation reports. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

INDEPENDENT AUDITOR'S REPORT TO THE SHARE HOLDERS OF

ALDAR INVESTMENT PROPERTIES LLC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued
(c) *Impairment assessment of hotel properties classified under property, plant and equipment*
Hotel properties classified under property, plant and equipment had a carrying amount of AED 2,444 million as at 31 December 2018. The Group undertakes a review of indicators of impairment and wherever indicators of impairment exist, an impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration (see notes 4.2 and 5 to the consolidated financial statements).

The estimation of recoverable amounts of Hotel properties was assessed as a key audit matter due to the degree of complexity involved in valuation and the significance of the judgements and estimates made by the management.

We assessed the qualifications and expertise of independent third party Valuers and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of Hotel properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside the expected range or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analysed assumptions such as average daily rate and occupancy levels against historical trends or published benchmarks. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

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 International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Article of Association and of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHARE HOLDERS OF

ALDAR INVESTMENT PROPERTIES LLC continued

Report on the Audit of the Consolidated Financial Statements continued

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or group activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT TO THE SHARE HOLDERS OF

ALDAR INVESTMENT PROPERTIES LLC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditor's responsibilities for the audit of the consolidated financial statements continued
We communicate with Board of Directors 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 Board of Directors 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.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, 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. (2) of 2015 and the Memorandum and Articles of Association of the Company;

iii) the Group has maintained proper books of account;

iv) the consolidated financial information included in the Board of Directors report is consistent with the books of account and records of the Group;

v) based on the information that has been made available to us, the Group has not purchased or invested in any shares or stocks during the financial year ended 31 December 2018;

vi) note 25 reflects material related party transactions and the terms under which they were conducted; and

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 Company has contravened, during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2018.

Signed by:
Anthony O'Sullivan
Partner
Ernst & Young
Registration No 687

29 May 2019
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**3,044,822**	2,093,036
Intangible assets	6	**1,157**	782
Investment properties	7	**15,516,830**	14,097,961
Other financial asset	18	**8,481**	-
Total non-current assets		**18,571,290**	16,191,779
Current assets			
Inventories	8	**13,198**	91,079
Trade and other receivables	9	**423,542**	285,915
Cash and bank balances	10	**246,242**	180,084
Total current assets		**682,982**	557,078
TOTAL ASSETS		**19,254,272**	16,748,857
EQUITY AND LIABILITES			
Equity			
Capital	11	**1**	-
Retained earnings		**(67,780)**	-
Net investment by the Ultimate Parent	13 & 25	**-**	10,216,011
Additional capital contribution	14 & 25	**11,056,236**	-
Hedging reserve		**61,404**	(5,748)
Total equity		**11,049,861**	10,210,263
Non-current liabilities			
Non-convertible sukuk	15	**1,810,140**	-
Bank borrowings	16	**2,287,713**	1,820,273
Corporate loan from the Ultimate Parent	25	**2,759,214**	-
Lease liability		**244,842**	225,478
Employees' end of service benefits	17	**-**	14,133
Other financial liability	18	**5,543**	5,748
Total non-current liabilities		**7,107,452**	2,065,632
Current liabilities			
Non-convertible sukuk	15	**21,811**	2,762,570
Bank borrowings	16	**10,370**	815,507
Lease liability		**44,526**	20,331
Advances and security deposits		**216,437**	193,669
Management fee payable to the Ultimate Parent	21 & 25	**39,359**	-
Trade and other payables	19	**764,456**	680,885
Total current liabilities		**1,096,959**	4,472,962
Total liabilities		**8,204,411**	6,538,594
TOTAL EQUITY AND LIABILITIES		**19,254,272**	16,748,857

Talal Al Dhiyebi
Chairman

Jassem Saleh Busaibe
Chief Executive Officer

The accompanying notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018

	Notes	***2018 AED'000***	*2017 AED'000*
Revenue		**1,828,997**	1,878,678
Costs of revenue	20	**(640,389)**	(655,617)
GROSS PROFIT		**1,188,608**	1,223,061
Management fee by Ultimate Parent	21	**(39,359)**	-
Selling and marketing expenses	22	**(3,673)**	(8,846)
General and administrative expenses			
Staff costs	23	**(26,333)**	(58,873)
Depreciation and amortisation	5 & 6	**(108,876)**	(113,978)
Provisions, impairments and write downs, net	5 & 9	**(16,577)**	(42,835)
Others		**(21,643)**	(12,055)
Gain on disposal of investment properties		**-**	3,835
Fair value loss on investment properties, net	7	**(670,077)**	(459,013)
Finance income		**45**	10,062
Finance costs	24	**(187,946)**	(218,285)
Other income		**14,472**	-
PROFIT FOR THE YEAR		**128,641**	323,073

The accompanying notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018	*2017*
	AED'000	*AED'000*
Profit for the year	**128,641**	323,073
Other comprehensive income (loss) to be reclassified to income statement in subsequent periods:		
Changes in fair value of cash flow hedges (note 18)	**67,152**	(5,748)
Other comprehensive income (loss) for the year	**67,152**	(5,748)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**195,793**	317,325

The accompanying notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Net investment by the ultimate parent AED'000	*Capital AED'000*	*Retained earnings AED'000*	*Additional capital contribution AED'000*	*Hedging reserve AED'000*	*Total equity AED'000*
Balance at 1 January 2017	10,318,076	-	-	-	-	10,318,076
Profit for the year	323,073	-	-	-		323,073
Other comprehensive loss for the year	-	-	-	-	(5,748)	(5,748)
Total comprehensive income for the year	323,073	-	-	-	(5,748)	317,325
Movement during the year (note 13)	(425,138)	-	-	-	-	(425,138)
Balance at 31 December 2017	10,216,011	-	-	-	(5,748)	10,210,263
Introduction of capital	-	1	-	-	-	1
Profit for the year	196,421	-	(67,780)	-	-	128,641
Other comprehensive gain for the year	-	-	-	-	67,152	67,152
Total comprehensive income for the year	196,421	-	(67,780)	-	67,152	195,793
Transfer during the year (notes 13 and 14)	(10,610,785)	-	-	10,610,785	-	-
Movement during the year (notes 13 and 14)	198,353	-	-	445,451	-	643,804
Balance at 31 December 2018	**-**	**1**	**(67,780)**	**11,056,236**	**61,404**	**11,049,861**

The accompanying notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
OPERATING ACTIVITIES			
Profit for the year		**128,641**	323,073
Adjustments for:			
Depreciation and amortisation	5 & 6	**108,876**	113,978
Finance costs		**179,312**	198,687
Amortisation of prepaid finance costs		**8,634**	19,598
Fair value loss on investment properties, net	7	**670,077**	459,013
(Reversal of)/ provision for impairment property, plant and equipment, net	5	**(29,416)**	32,716
Provision for impairment of trade receivables, net	9	**45,993**	10,119
Gain on disposal of investment properties		**-**	(3,835)
Provision for employees' end of service benefit		**1,807**	3,984
Operating cash flows before changes in working capital		**1,113,924**	1,157,333
Changes in working capital:			
Trade and other receivables		**(183,621)**	(6,729)
Inventories		**(5,662)**	(4,464)
Advances and security deposits		**22,768**	22,656
Management fee payable to the Ultimate Parent		**39,359**	-
Lease liability		**74,290**	9,828
Trade and other payables		**83,566**	(25,741)
Cash generated from operating activities		**1,144,624**	1,152,883
Employees' end of service benefits paid		**(1,501)**	(4,152)
Net cash generated from operating activities		**1,143,123**	1,148,731
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(33,638)**	(37,755)
Purchase of intangible assets		**(834)**	(403)
Additions to investment properties		**(208,152)**	(901,730)
Proceeds from disposal of investment properties		**-**	15,094
Funds received on partial swap termination		**58,466**	-
Movement in term deposits with original maturities greater than three months		**-**	5,061
Capital introduced		**1**	-
Net cash used in investing activities		**(184,157)**	(919,733)
FINANCING ACTIVITIES			
Repayment of bank borrowings and sukuk		**(4,407,514)**	(627,592)
Bank borrowings and sukuk raised		**3,136,750**	1,000,000
Finance costs paid		**(154,693)**	(191,548)
Repayment of lease liability		**(30,732)**	(20,718)
Movement in net investment by the Ultimate Parent	13	**198,353**	(425,138)
Net movement in additional capital contribution		**365,028**	-
Net cash used in financing activities		**(892,808)**	(264,996)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**66,158**	(35,998)
Cash and cash equivalents at the beginning of the year		**180,084**	216,082
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**246,242**	180,084
Non-cash transactions:			
Transfers from Ultimate Parent:			
Property, plant & equipment		**1,022,004**	4,360
Intangible assets		**6**	-
Investment properties	7	**1,772,388**	-
Corporate loan	25	**2,759,214**	-

The accompanying notes 1 to 30 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Aldar Investment Properties LLC (the “Company”) is a limited liability company incorporated in accordance with the UAE Federal Law No. (2) of 2015. The Company is owned by Aldar Investment Holding Restricted Limited (the “Parent Company”), a restricted scope company incorporated in Abu Dhabi Global Market. Aldar Properties PJSC, a company incorporated in Abu Dhabi, UAE and listed in Abu Dhabi Securities Exchange, is the “Ultimate Parent” of the Company.

The Company and its subsidiaries (together referred to as the “Group”) are involved in management of real estate assets including offices, malls, hotels, golf courses, beach clubs, restaurants and cooling assets, which are the principal activities of the Group.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments that have been measured at fair value. The principal accounting policies are set out below.

These consolidated financial statements have been presented in UAE Dirhams (AED) which is also the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise indicated.

Pooling of interest method of accounting
The Board of Directors of Aldar Properties PJSC (“Ultimate Parent”), in their meeting held on 12 November 2017 approved the transfer of the Asset Management portfolio of Aldar Properties PJSC (the “Aldar Asset Management Business” or the “Business”) to the Company subsequent to its incorporation. The Aldar Asset Management Business comprised of a portfolio of investment properties and hotels managed by the Ultimate Parent.

The transfer of the Aldar Asset Management Business to the Company represents transfer of business under common control. The management has applied the pooling of interests method of accounting, whereby the consolidated financial statements of the Group are presented as a continuation of the Aldar Asset Management Business. Consequently, the comparative information for the year ended and as at 31 December 2017 presented in these consolidated financial statements represent the financial results and financial position of the Aldar Asset Management Business. As the transfer of Aldar Asset Management Business to the Company was affected subsequent to the incorporation of the Company, the financial results of the Group for the year ended 31 December 2018 also includes the results of the Aldar Asset Management Business until the date of transfer to the Company.

Financial results and financial position of Aldar Asset Management Business
The financial results and financial position of the Aldar Asset Management Business included in these consolidated financial statements, as explained above, represent the assets and associated liabilities subject to the asset transfer agreement entered into between the Ultimate Parent and the Company.

Aldar Asset Management Business had historically operated as part of the Ultimate Parent and not as a standalone company or a separate legal entity. The financial results and financial position of the Aldar Asset Management Business included in these consolidated financial statements represent the historical operations of the Aldar Asset Management Business and have been derived from the Ultimate Parent’s historical accounting records.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION continued

2.2 Basis of preparation continued

Financial results and financial position of Aldar Asset Management Business continued
The financial results and financial position of the Aldar Asset Management Business included in these consolidated financial statements have been presented on a basis that combines the results and assets and liabilities of each of the operations constituting the Aldar Asset Management Business by applying the principles underlying the consolidation procedures of IFRS 10 “Consolidated Financial Statements” and include the assets, liabilities, revenues and expenses that management has determined are attributable to the Aldar Asset Management Business.

The following summarises the accounting and other principles applied in presentation of the financial results and financial position of the Aldar Asset Management Business in these consolidated financial statements:

Consolidated statement of financial position:

- As the Aldar Asset Management Business did not comprise a separate legal entity, therefore share capital or an analysis of reserves or components of other comprehensive income, other than hedging reserves which is separately identifiable have not been presented. “Net investment by the Ultimate Parent” in the comparative period represents a combination of the overall receivables and payables with the Ultimate Parent, funding balances with the Parent and investment by the Ultimate Parent in the Aldar Asset Management Business, which cannot be separately identified or allocated. Subsequent to the transfer of the Aldar Asset Management Business to the Group, the balance as at 30 June 2018 representing the contribution/ funding by the Ultimate Parent has been transferred to “Additional capital contribution”. For details please refer notes 13 and 14.

- The comparative information included in the statement of consolidated statement of financial position as at 31 December 2017 includes the Ultimate Parent’s assets and liabilities that are specifically identifiable or otherwise attributable to the Aldar Asset Management Business.

- The Ultimate Parent’s borrowings including non-convertible Sukuk, that are transferred to the Company, or which were obtained/ raised by the Ultimate Parent and utilised for the purpose of the Aldar Asset Management Business, have been included in the consolidated statement of financial position as at 31 December 2017. The borrowings, including non-convertible Sukuk, which have not been transferred to the Company have been refinanced through the undrawn facilities transferred to the Company or through new facilities obtained from financial institutions, the Ultimate Parent (through additional capital contribution and corporate loan) or the issue of Sukuk.

- Cash balances that were specifically identifiable and attributable to Aldar Asset Management Business have been included in the consolidated statement of financial position as at 31 December 2017.

- In accordance with the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, including the intended use of property, certain properties that were classified under property and equipment in the consolidated statement of financial position of the Ultimate Parent have been reclassified as investment properties in the consolidated statement of financial position of the Group as at 31 December 2017 and accounted for in accordance with the accounting policies disclosed below.

- Liability in respect of end of service benefits payable to indirect employees involved in the hotel operations under management agreement with the operator of the hotels have been included in the consolidated statement of financial position as at 31 December 2017. As these employees are on the payroll of the Ultimate Parent, the end of service benefits have been transferred to the Ultimate Parent through the Net Investment by the Ultimate Parent as of the date of transfer of Business to the Company. For details please refer note 17.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION continued

2.2 Basis of preparation continued

Financial results and financial position of Aldar Asset Management Business continued

Consolidated income statement:

- All revenues and costs associated with the Aldar Asset Management Business are included in these financial statements until the date of transfer to the Company.

- Certain expenses incurred by the Aldar Asset Management Business to the date of transfer to the Company, including staff costs, selling and marketing expenses and general and administrative expenses, associated with the Aldar Asset Management Business but borne by the Ultimate Parent, have been allocated to the Aldar Asset Management Business and presented in the consolidated income statement. These represent certain corporate and shared service function historically provided by the Ultimate Parent, including, but not limited to, executive oversight, accounting, treasury, human resources, procurement, information technology, marketing, and other shared services. These expenses have been allocated on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis, representing reasonable reflection of the historical utilisation levels of the services.

Consolidated statement of cashflows:

- Transactions between the Aldar Asset Management Business and Ultimate Parent are considered to be settled at the time the transaction is recorded. The total net effect of the settlement of these transactions is reflected in the consolidated statement of cash flows within financing activities.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, 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. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION continued

2.3 Basis of consolidation continued

Profit or loss and each component of OCI are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in income statement. Any investment retained is recognised at fair value.

Details of the Company subsidiaries as at 31 December 2018 are given below:

Name of subsidiary	*Ownership interest*	*Country of incorporation*	*Principal activity*
Yas Links LLC	100%	UAE	Ownership and management of golf courses and golf clubs
Saadiyat Accommodation Village LLC	100%	UAE	Management of accommodation village
Saadiyat Cooling LLC	85%	UAE	Cooling station operations
Saadiyat District Cooling LLC	100%	UAE	Cooling station operations

2.4 Standards issued and adopted

The Group applied IFRS 9 for the first time. Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group. Other than IFRS 16 "Leases", the Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively.

In line with IFRS 9 transition provisions, the Group has elected to record any adjustment to its retained earnings as at 1 January 2018 to reflect the application of the requirements in relation to impairment and measurement at the date of adoption without restating comparative information. The adoption of IFTRS 9 did not have any impact on the opening retained earnings of the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group's consolidated financial statements.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION continued

2.4 Standards issued and adopted continued

Amendments to IAS 40 Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any material impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has no share-based payment transactions and hence these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

The Group had elected to early adopt IFRS 15 with effect from 1 January 2015.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION continued

2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

	Effective for annual periods beginning on or after
Standards, interpretation and amendments	
• IFRS 17, Insurance Contracts: IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005	1 January 2021
• Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
• Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
• Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
• Amendments to IAS 28: Long term investment in associates and joint ventures	1 January 2019
Annual Improvements 2015-2017 Cycle	
• IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
• IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
• IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
• IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation	1 January 2019

The Group had elected to early adopt IFRS 16 with effect from 1 January 2016. Management anticipates that the adoption of the standards, interpretations and amendments issued but not yet effective will have no material impact on the consolidated financial statements of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.1 Business combinations and goodwill continued

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.2 Current versus non-current classification

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

- expected to be realised or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period

or

- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period

or

- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.3 Revenue recognition

The Group had elected to early adopt IFRS 15 with effect from 1 January 2015.

Revenue from contracts with customers
The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1 Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2 Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5 Recognise revenue when (or as) the Group satisfies a performance obligation.

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

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

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

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Service charges and expenses recoverable from tenant
Income arising from cost recharged to tenants is recognised in the period in which the cost can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the Group acts as principal in this respect.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.3 Revenue recognition continued

Income from hotels
Income from hotels comprises revenue from rooms, food and beverages and other associated services provided, and is recognised at the point when the goods are sold or services are rendered.

Income from leisure businesses
Income from leisure businesses comprises revenue from goods sold and services provided at marinas and golf course and is recognised at the point when the goods are sold or services are rendered.

Revenue from cooling assets
Revenue is recognised for supply of chilled water based on the agreements. The revenue in respect of the contracted capacity is recognised at the fixed rate, whereas the revenue in respect of the consumption of chilled water is recognised as these are consumed by the customer at agreed rates. In addition, customers are charged a one-time connection fee.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and effective interest rate applicable.

3.4 Leases

The Group had elected to early adopt IFRS 16 with effect from 1 January 2016.

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

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group as lessee
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The relative stand-alone price of lease and non-lease components is determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.4 Leases continued

The Group as lessee continued
The non-lease components are accounted for in accordance with the Group's policies.

For determination of the lease term, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

a) is within the control of the Group; and
b) affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

At the commencement date, the Group recognises a right-of-use asset and a lease liability under the lease contract.

Lease liability
Lease liability is initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where, (a) there is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above; or (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group remeasures the lease liabilities to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or its incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where, (a) there is a change in the amounts expected to be payable under a residual value guarantee; or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group remeasures the lease liabilities by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group use a revised discount rate that reflects changes in the interest rate.

The Group recognises the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in profit or loss.

The Group accounts for a lease modification as a separate lease if both:

a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.4 Leases continued

Lease liability continued
Lease modifications that are not accounted for as a separate, lease the Group, at the effective date of the lease modification: (a) allocates the consideration in the modified contract; (b) determines the lease term of the modified lease; and (c) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

Right-of-use assets
The right-of-use asset is initially recognised at cost comprising of

a) amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the Group; and
d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are recognised as part of the cost of right-of-use asset when the Group incurs an obligation for these costs. The obligation for these costs are incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After initial recognition, the Group applies fair value model to right-of-use assets that meet the definition of investment property. For assets that meet the definition of property, plant and equipment, right of use asset is carried at cost net of depreciation and impairment and is amortised over the term of the lease.

3.5 Foreign currencies

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in income statement in the period during which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement in the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the assets’ cost to their residual values over their estimated useful lives as follows:

	Years
Buildings	20 – 30
Plants and machinery	15 - 20
Furniture and fixtures	5
Office equipment	3 – 5
Computers	3
Motor vehicles	4
Leasehold improvements	3 – 4
Labour camps	5

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

3.8 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is accounted in accordance with the policies.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.9 Investment properties

Investment properties comprise completed properties and properties under development. Completed properties are properties held to earn rentals and/ or for capital appreciation and properties under development are properties being constructed or developed for future use as investment property.

Investment properties are measured initially at cost including transaction costs and for properties under development all direct costs attributable to the design and construction including related staff costs. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Transfers are made to, or from, investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Upon completion of construction or development, a property is transferred from properties under development to completed properties. 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 the income statement in the period of derecognition.

3.10 Inventories

Inventories comprise completed properties held for sale in the ordinary course of business and other operating inventories. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and comprises construction/ acquisition costs and other charges incurred in bringing inventory to its present location and condition. Net realisable value represents the estimated selling price less all estimated selling and marketing costs to be incurred.

3.11 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets. An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives which is normally a period of three to five years.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.12 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 of disposal and its value in use. The 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. 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.

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 income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.13 Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

3.14 Provisions

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. When the Group expects some or all of 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 the income statement 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 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.

Financial assets
All financial assets under the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost, if both the following conditions are met:

- the financial asset is held within a business model whose objective is 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.

A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Business may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial liabilities
All financial liabilities are classified and subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies
- financial guarantee contracts
- commitments to provide a loan at a below-market interest rate

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments – initial recognition and subsequent measurement continued

Financial liabilities continued
At initial recognition, the Group may irrevocably designate a financial liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a Group of financial liabilities or financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (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 statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Embedded derivatives
Where a hybrid contract contains a host that is a financial asset under the scope of IFRS 9, the policy in relation to classification and measurement, including impairment relating to the financial assets applies to the entire hybrid contract.

Where a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, the embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

Where a contract contains one or more embedded derivatives and the host is not a financial asset within the scope of IFRS 9, the Group may designate the entire hybrid contract as at fair value through profit or loss unless:

- the embedded derivatives do not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivatives is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

Where it is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Reclassification of financial assets and financial liabilities
Where the Group changes its business model for managing financial assets, it reclassifies all affected financial assets. An entity shall not reclassify any financial liability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments – initial recognition and subsequent measurement continued

Measurement of financial assets and liabilities
Initial measurement
At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets
After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment; or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and at fair value through other comprehensive income as disclosed below.

Hedge accounting requirements disclosed below applies to financial assets designated as hedged item.

Impairment of financial assets
In relation to the impairment of financial assets, the Group applies the Expected Credit Loss ("ECL") model as opposed to an incurred credit loss model. Under the expected credit loss model, the Group accounts for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. It is not necessary for a credit event to have occurred before credit losses are recognised.

A loss allowance for expected credit losses is recognised on all classes of financial assets, other than those that are measured as fair value through profit or loss and equity instruments classified and measured at fair value through other comprehensive income. The financial assets subject to impairment requirements of IFRS 9, include:

- debt investments subsequently measured at amortised cost or at fair value through other comprehensive income;
- trade receivables;
- lease receivables;
- contract assets; and
- loan commitments and financial guarantee contracts.

The Group has adopted the simplified approach for measuring the impairment on trade receivables, lease receivables and contract assets. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments – initial recognition and subsequent measurement continued

Impairment of financial assets continued
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of ‘investment grade’ as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are highly doubtful of collection, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets’ gross carrying amount at the reporting date.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped for the assessment of the expected credit loss. The grouping is regularly reviewed by management to ensure the constituents of each Group continue to share similar credit risk characteristics.

The management reviewed and assessed the Group’s existing financial assets for impairment, as at 1 January 2018, using reasonable and supportable information that is available, in accordance with the guidance included in IFRS 9, to determine the credit risk associated with the respective financial assets. Based on this assessment, the management believes that there is no material impact on the carrying values of the financial assets as at 1 January 2018.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments – initial recognition and subsequent measurement continued

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.

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.

3.16 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.16 Derivative financial instruments and hedge accounting continued

Fair value hedges
The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4.1 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:

Discount rate used for initial measurement of lease liability
The Group, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Incremental borrowing rate 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 assets in similar economic environment.

The Group determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

4.1 Judgements continued

Classification of properties
In the process of classifying properties, management has made various judgements. Judgement is needed to determine whether a property qualifies as an investment property, property, plant and equipment and/ or property held for sale. The Group develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property, plant and equipment and property held for sale. In making its judgement, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, and in particular, the intended usage of property as determined by the management. The Group also needs to determine whether the nature of classification is appropriate in light of the contractual arrangements in place where an economic interest in an asset has been transferred in advance of legal title being transferred.

4.2 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 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.

Impairment of financial assets
The Group assesses the impairment of its financial assets based on the Expected Credit Loss (“ECL”) model. Under the expected credit loss model, the Group accounts for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. The Group measures the loss allowance at an amount equal to lifetime ECL for its financial instruments.

The Group measures the expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured for the maximum contractual period over which the entity is exposed to credit risk.

Fair value of investment properties and investment properties under development
The fair value of investment properties is determined by independent real estate valuation experts using Income Capitalisation Method.

Under the Income Capitalisation Approach, the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

4.2 Estimates and assumptions continued

Fair value of investment properties and investment properties under development continued
Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The key assumptions used are as follows:

	Range %
Targeted internal rate of return	9 - 16
Rental yield	7 - 12

Impairment of property, plant and equipment and capital work in progress
Properties classified under property, plant and equipment and capital work in progress are assessed for impairment when there is an indication that those assets have suffered an impairment loss. An impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration. The fair value of hotel properties classified under property, plant and equipment is determined by an independent real estate valuation expert using Discounted Cash Flow method.

Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Useful lives of property, plant and equipment and intangible assets
Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

5 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings AED'000	*Furniture and fixtures AED'000*	*Plant and machinery AED'000*	*Office equipment AED'000*	*Computers AED'000*	*Motor vehicles AED'000*	*Leasehold improvements AED'000*	*Labour camps AED'000*	*Capital work-in progress AED'000*	*Total AED'000*
Cost:										
At 1 January 2017	4,888,516	367,436	-	28,508	33,467	1,427	2,527	-	16,932	5,338,813
Additions	328	7,531	-	-	1,176	-	-	-	28,720	37,755
Transfers to investment properties (note 7)	-	-	-	-	-	-	-	-	(20,125)	(20,125)
At 1 January 2018	4,888,844	374,967	-	28,508	34,643	1,427	2,527	-	25,527	5,356,443
Additions	389,014	10,450	536,742	14,059	8,322	886	46,153	24,949	25,067	1,055,642
Transfers to investment properties (note 7)	(6,532)	-	-	-	-	-	-	-	(18,329)	(24,861)
At 31 December 2018	**5,271,326**	**385,417**	**536,742**	**42,567**	**42,965**	**2,313**	**48,680**	**24,949**	**32,265**	**6,387,224**
Accumulated depreciation and impairment:										
At 1 January 2017	2,723,873	330,802	-	25,984	32,381	1,295	2,527	-	-	3,116,862
Charge for the year	97,254	14,256	-	1,398	823	98	-	-	-	113,829
Impairment	32,716	-	-	-	-	-	-	-	-	32,716
At 1 January 2018	2,853,843	345,058	-	27,382	33,204	1,393	2,527	-	-	3,263,407
Charge for the year	94,597	9,750	-	2,303	1,701	60	-	-	-	108,411
Impairment reversal	(29,416)	-	-	-	-	-	-	-	-	(29,416)
At 31 December 2018	**2,919,024**	**354,808**	**-**	**29,685**	**34,905**	**1,453**	**2,527**	**-**	**-**	**3,342,402**
Carrying amount:										
At 31 December 2017	2,035,001	29,909	-	1,126	1,439	34	-	-	25,527	2,093,036
At 31 December 2018	**2,352,302**	**30,609**	**536,742**	**12,882**	**8,060**	**860**	**46,153**	**24,949**	**32,265**	**3,044,822**

All of the property, plant and equipment are located in the United Arab Emirates.

The legal titles of certain property, plant and equipment are currently in the name of the Ultimate Parent. The legal formalities are in process to transfer these titles, however in such cases economic interest has been irrevocably transferred to the Group.

5 PROPERTY, PLANT AND EQUIPMENT continued

During the year, the Group carried out a review of recoverable value of its property, plant and equipment. The review led to impairment of AED 29,416 thousand (2017: impairment of AED 32,716 thousand), which has been recorded in the consolidated income statement. The recoverable value of relevant assets has been determined by reference to the discounted cash flow method using a yield of 7.0% to 9.0% (2017: 7.5% to 9.0%) and a discount rate of 10.25% to 15.0% (2017: 10.25% to 13.0%).

The Group conducted a sensitivity analysis for all its hotel properties classified under property, plant and equipment. The sensitivity has been conducted on the Revenue Per Available Room (RevPAR), and discount rate and exit yield. Based on this sensitivity analysis as of 31 December 2018*:*

- a decrease in the Discount Rate & Exit Yield by 50bps would result in AED 167,820 thousand or 7.3% increase in the recoverable value, whilst an increase in the Discount Rate & Exit Yield by 50bps would result in AED 147,640 thousand or 6.4% decrease in the recoverable value.
- an increase in the RevPAR by 10% would result in AED 277,980 thousand or 12.0% increase in the recoverable value, whilst a decrease in the RevPAR by 10% would result in AED 266,370 thousand or 11.5% decrease in the recoverable value.

6 INTANGIBLE ASSETS

	Computer software AED'000
Cost:	
At 1 January 2017	2,201
Additions	403
At 1 January 2018	2,604
Additions	840
At 31 December 2018	**3,444**
Accumulated amortisation:	
At 1 January 2017	1,673
Charge for the year	149
At 1 January 2018	1,822
Charge for the year	465
At 31 December 2018	**2,287**
Carrying amount:	
31 December 2017	782
31 December 2018	**1,157**

7 INVESTMENT PROPERTIES

Investment properties comprise completed properties (buildings and retail centers) and investment properties under development (IPUD). The movement during the year is as follows:

	Completed properties AED'000	*Properties under development AED'000*	*Total AED'000*
Balance at 1 January 2017	13,544,736	97,069	13,641,805
Additions during the year, net	626,091	279,999	906,090
Finance cost capitalised	-	213	213
Fair value loss, net	(459,013)	-	(459,013)
Disposals	(11,259)	-	(11,259)
Transfers	165,233	(165,233)	-
Transfer from property, plant and equipment (note 5)	20,125	-	20,125
Balance at 1 January 2018	13,885,913	212,048	14,097,961
Additions during the year, net	1,798,621	181,919	1,980,540
Fair value loss, net	(670,077)	-	(670,077)
Transfer from property, plant and equipment (note 5)	24,861	-	24,861
Transfer from inventory	83,545	-	83,545
Balance at 31 December 2018	**15,122,863**	**393,967**	**15,516,830**

The fair values of the investment properties are arrived at on the basis of a valuation carried out by independent valuers not connected to the Group. The valuers are members of professional valuers' associations and have appropriate qualifications and experience in the valuation of properties at the relevant locations. The valuations were mainly determined by using the Income Capitalisation Method. The valuations were conducted as at 31 October 2018 and as per management assessment, there were no significant changes to the fair values of these investment properties from the date of valuation to 31 December 2018. Refer to note 4.2 for the key assumptions used.

Right of use assets amounting to AED 348,317 thousand are included in the completed properties at 31 December 2018.

Additions during the year ended 31 December 2018 include transfers from the Ultimate Parent amounting to AED 1,772,388 thousand (2017: AED 4,360 thousand).

The legal titles of certain investment properties are currently in the name of the Ultimate parent. The legal formalities are in process to transfer these titles, however in such cases economic interest has been irrevocably transferred to the Group.

The Group conducted a sensitivity analysis for eleven largest assets in its investment property portfolio with an aggregate value of AED 12,352,336 thousand. The sensitivity has been conducted on the Capitalisation Rates and Rental Values. Based on this sensitivity analysis:

- a decrease in the capitalisation/ discount Rate by 50bps would result in a AED 1,402,782 thousand or 11.4% increase in the valuation, whilst an increase in the capitalisation/ discount Rate by 50bps would result in AED 1,109,153 thousand 9.0% decrease in the valuation.
- an increase in the rental rates by 10% would result in an AED 1,335,042 thousand or 10.8% increase in the valuation, whilst a decrease in the rental rates by 10.8% would result in AED 1,334,044 thousand or 10.8% decrease in the valuation.

All investment properties are located in the United Arab Emirates.

7 INVESTMENT PROPERTIES continued

It should be noted that discount rates and capitalisation rates are different than interest rates as commonly applied to borrowing rates or cost of short term and long-term debt. Discount rates and capitalisation rates are carefully derived by professional values in determining the fair market value of properties by using multiple valuation factors. There are interrelationships between the unobservable inputs which are generally determined by market conditions. The valuation may be affected by the interrelationship between the two noted unobservable inputs; for example, an increase in rent may be offset by an increase in the capitalisation rate, thus resulting in no net impact on the valuation. Similarly, an increase in rent in conjunction with a decrease in the capitalisation rate would amplify an increase in the value. The investment properties are categorised under Level 3 in the fair value hierarchy.

8 INVENTORIES

	2018	*2017*
	AED'000	*AED'000*
Completed properties (note 7)	**-**	83,545
Operating inventories	**13,198**	7,534
	13,198	91,079

Operating inventories represent inventory relating to the hospitality and leisure segment only. As at 31 December 2018, no provision has been recorded against these inventories.

9 TRADE AND OTHER RECEIVABLES

	2018	*2017*
	AED'000	*AED'000*
Trade receivables	**462,743**	169,936
Less: allowances for expected credit loss	**(178,446)**	(37,527)
	284,297	132,409
Advances and prepayments	**66,410**	66,360
Accrued income	**22,015**	42,869
Other receivables	**50,820**	44,277
	423,542	285,915

9 TRADE AND OTHER RECEIVABLES continued

As at 31 December 2018, 30% of the trade receivables (2017: 25% of the trade receivables) are due from its top five customers.

	2018	*2017*
	AED'000	*AED'000*
Ageing of trade receivables		
Not past due	**225,418**	90,989
Past due (more than 180 days)	**58,879**	41,420
Total	**284,297**	132,409

Subsequent to the year end, the Group has collected AED 254,502 thousand of the above trade receivables balance during the period to 27 May 2019.

Movement during the year in allowance for expected credit loss is as follows:

	2018	*2017*
	AED'000	*AED'000*
Balance at the beginning of the year	**37,527**	27,408
Acquired with assets transferred	**122,211**	-
Release of provision, net	**(27,285)**	-
Charge for the year, net	**45,993**	10,119
Balance at the end of the year	**178,446**	37,527

The Group recognises lifetime expected credit loss (ECL) for trade and other receivables using the simplified approach. To determine the expected credit losses all debtors were classified into four categories and the ECL rate for each category was determined using a provision matrix:

- Category I – government related companies (0%);
- Category II – private companies with low credit risk (1% to 20%);
- Category III – private companies with high credit risk (20% to 60%); and
- Category IV – debtors at default (100%)

These were adjusted for factors that are specific to the debtors and general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money, where appropriate.

10 CASH AND BANK BALANCES

	2018	*2017*
	AED'000	*AED'000*
Cash in hand	**1,760**	811
Bank balances	**244,482**	179,273
Cash and bank balances	**246,242**	180,084

As of 31 December 2018, certain bank accounts are in the name of the Ultimate Parent.

All bank balances including fixed deposits are held with local banks in the United Arab Emirates.

11 CAPITAL

Capital comprise of 1,000 shares of AED 1 each.

12 STATUTORY RESERVE

In accordance with the Company's Articles of Association and the UAE Federal Law No. (2) of 2015, 10% of the profit of the Company is transferred to a statutory reserve that is non-distributable. Transfers to this reserve may be suspended whenever the reserve reaches 50% of the paid-up share capital of the Company.

As the Group had net losses subsequent to the transfer of Aldar Asset Management Business to the Group, no amount has been transferred to the statutory reserve.

13 NET INVESTMENT BY THE ULTIMATE PARENT

	2018	*2017*
	AED'000	*AED'000*
Balance at the beginning of the year	**10,216,011**	10,318,076
Profit for the year/ period before 30 June 2018	**196,421**	323,073
Movement in net investment by the Ultimate Parent *	**198,353**	(425,138)
Transfer to additional capital contribution (note 14)	**(10,610,785)**	-
Balance at the end of the year	**-**	10,216,011

*Movement in net investment by the Ultimate Parent is represented by:

	2018	*2017*
	AED'000	*AED'000*
Allocation of expenses to the Group by the Ultimate Parent	**153,575**	400,165
Transfer of investment properties	**-**	4,360
Cash pooling, general financing and other activities	**44,778**	(829,663)
	198,353	(425,138)

14 ADDITIONAL CAPITAL CONTRIBUTION

	2018	*2017*
	AED'000	*AED'000*
Balance at the beginning of the year	**-**	-
Transfer from net investment by the Ultimate Parent (note 13)	**10,610,785**	-
Net movement during the year	**445,451**	-
Balance at the end of the year	**11,056,236**	-

Additional capital contribution represents the net contribution/ funding made by the Ultimate Parent as a result of transfer of the Aldar Asset Management Business to the Group. The amount is payable at the discretion of the Group and classified under equity.

Net movement during the year represents the transfer of certain property assets and related working capital from the Ultimate Parent to the Group. In addition, as explained in note 25 below, the additional capital contribution has been partially adjusted through the corporate loan from the Ultimate Parent.

15 NON-CONVERTIBLE SUKUK

	2018	*2017*
	AED'000	*AED'000*
Proceeds from issue	**1,836,750**	2,755,125
Gross issue costs	**(27,062)**	(18,580)
Less: amortisation of issue costs	**452**	16,042
Unamortised issue costs	**(26,610)**	(2,538)
Add: accrued profit	**21,811**	9,983
Carrying amount	**1,831,951**	2,762,570
Less: current portion	**(21,811)**	(2,762,570)
Non-current portion	**1,810,140**	-

In December 2013, Aldar Properties PJSC issued non-convertible Sukuk (Ijarah) notes for a total value of AED 2,755,125 thousand (USD 750,000 thousand). The Sukuk had a profit rate of 4.348% per annum payable semi-annually and was due for settlement in December 2018, out of which USD 295,465 thousand was settled on 1 October 2018 and the balance of Sukuk was settled on 3 December 2018.

On 1 October 2018, the Group issued non-convertible Sukuk (Al Wakala) notes for a total value of AED 1,836,750 thousand (USD 500,000 thousand). The Sukuk has a profit rate of 4.750% per annum payable semi-annually and is due for settlement in September 2025.

16 BANK BORROWINGS

	Current AED'000	*Non-current AED'000*	*Total AED'000*	*Interest rate*	*Maturity*	*Purpose*
31 December 2018						
Term loan	**-**	**400,000**	**400,000**	**EIBOR + 1.80%**	**August 2023**	**General purpose**
Term loan	**-**	**500,000**	**500,000**	**LIBOR + 1.30%**	**August 2023**	**General purpose**
Term loan	**-**	**500,000**	**500,000**	**EIBOR + 1.00%**	**September 2023**	**General purpose**
Term loan	**-**	**500,000**	**500,000**	**EIBOR + 1.00%**	**September 2023**	**General purpose**
Term loan	**-**	**400,000**	**400,000**	**EIBOR + 2.12%**	**August 2026**	**General purpose**
	-	**2,300,000**	**2,300,000**			
Unamortised borrowing cost	**-**	**(12,287)**	**(12,287)**			
Accrual for interests and profits	**10,370**	**-**	**10,370**			
	10,370	**2,287,713**	**2,298,083**			
31 December 2017						
Term loan	-	600,000	600,000	EIBOR + 1.30%	July 2019	Refinancing of debt
Term loan	-	160,000	160,000	EIBOR + 1.40%	June 2019	Refinancing of debt
Term loan	807,389	-	807,389	3 months LIBOR + 1.40%	November 2018	General purpose
Term loan	-	5,000	5,000	EIBOR + 1.80%	August 2023	General purpose
Lease facility	-	80,000	80,000	EIBOR + 1.40%	December 2019	General purpose
Term loan	-	500,000	500,000	EIBOR + 1.25%	August 2021	General purpose
Term loan	-	500,000	500,000	EIBOR + 1.30%	August 2023	General purpose
	807,389	1,845,000	2,652,389			
Unamortised borrowing cost	-	(24,727)	(24,727)			
Accrual for interests and profits	8,118	-	8,118			
	815,507	1,820,273	2,635,780			

16 BANK BORROWINGS continued

In September 2018, Aldar Investment Properties LLC novated 3 loans from Aldar Properties PJSC for AED 1.8 billion. The facilities comprised of USD 272 million of which, the facilities of USD 136 million each are with a maturity of 3 and 5 years and AED 800 million of which the facilities of AED 400 million each are with a maturity of 5 and 8 years. In September 2018 Aldar Investment Properties LLC signed a bilateral facility with a bank for AED 500 million with a maturity of 5 years.

Loan securities are in the form of mortgages over plots of land and operating assets, and carry a net worth covenant.

Borrowings repaid during the year amounted to AED 1,652,389 thousand (2017: AED 627,592 thousand).

17 EMPLOYEES' END OF SERVICE BENEFIT

Movement in the employees' end of service benefit is as follows:

	2018 ***AED'000***	*2017* *AED'000*
Balance at the beginning of the year	**14,133**	14,301
Charge for the year	**1,807**	3,984
Paid during the year	**(1,501)**	(4,152)
Transferred to Ultimate Parent	**(14,439)**	-
Balance at the end of the year	**-**	14,133

As discussed in note 2.2 and note 23 below, the Group does not have any employees on its payroll. The staff costs included in the consolidated income statement includes the costs of the Aldar Asset Management Business before the transfer of the Aldar Asset Management Business to the Company by the Ultimate Parent.

As these employees are on the payroll of the Ultimate Parent, the Ultimate Parent has the legal obligation in respect of the end of service benefits payable to the employees, the provision in this respect has been transferred to the Ultimate Parent through "Additional capital contribution".

18 OTHER FINANCIAL LIABILITY/OTHER FINANCIAL ASSET

The Group has entered into an interest rate swap contract to hedge its exposure to future cash flows arising from interest rate fluctuations. As at 31 December 2018, the notional amount of these derivatives amounted to AED 2,020 thousand (USD 550 million) with a change in fair value of AED 67,152 thousand recorded (2017: AED 5,748 thousand) in the consolidated statement of comprehensive income.

19 TRADE AND OTHER PAYABLES

	2018 ***AED'000***	*2017* *AED'000*
Trade payables	**102,823**	64,260
Deferred income	**153,296**	169,899
Retention payable	**57,296**	37,012
Accruals	**327,359**	260,892
Other payables	**123,682**	148,822
	764,456	680,885

20 COST OF REVENUE

	2018	*2017*
	AED'000	*AED'000*
Direct staff cost	**204,986**	219,966
Housekeeping and facility management	**123,202**	128,237
Utilities	**79,050**	77,005
Direct hotels cost	**90,264**	88,130
Rent	**21,431**	26,062
Management fee*	**21,923**	21,916
Security	**18,921**	18,297
Others	**80,612**	76,004
	640,389	655,617

* Management fee represents the fee charged by the operators of the hotels for the management and operations of hotel properties.

21 MANAGEMENT FEE BY ULTIMATE PARENT

This represents a management fee charged at 0.5 percent per annum of the gross asset value of the properties managed and charged by the Ultimate Parent Company as per the assets management and services agreement.

22 SELLING AND MARKETING EXPENSES

	2018	*2017*
	AED'000	*AED'000*
Advertising	**3,673**	7,781
Exhibitions and sponsorships	**-**	1,065
	3,673	8,846

Selling and marketing expenses represents the expenses incurred by Aldar Asset Management Business before the transfer of Aldar Asset Management Business to the Company.

23 STAFF COSTS

	2018	*2017*
	AED'000	*AED'000*
Salaries, bonuses and other benefits	**24,584**	55,315
Employees' end of service benefits	**1,639**	3,100
Staff training and development	**110**	458
	26,333	58,873

As discussed in note 2.2, the Group does not have any employees on its payroll.

The overheads (staff costs and others in general and administrative expenses and selling and marketing expenses) for the six months period from 1 January 2018 to 30 June 2018 is based on carved out/ allocated figures of the Aldar Asset Management Business. From 1 July 2018 onwards these services were provided by the Ultimate Parent under the terms of the on assets management and services agreement (note 21) for which they were remunerated through a management fee.

24 FINANCE COSTS

	2018 AED'000	2017 AED'000
Finance cost on borrowings	**178,729**	208,061
Unwinding finance cost on lease liability	**9,217**	10,224
	187,946	218,285

There was no capitalised borrowing cost during the year ended 31 December 2018. The weighted average capitalisation rate of funds borrowed in 2017 was 3.75%.

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise of Parent, Ultimate Parent, associated companies, directors, key management personnel of the Parent and Ultimate Parent and related entities. The terms of related party transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management. Government of Abu Dhabi is an indirect major shareholder of the Ultimate Parent.

The balances and transactions with related parties are disclosed below:

Balances with related parties

	2018 AED'000	2017 AED'000
Ultimate Parent:		
Net investment	**-**	10,216,011
Additional capital contribution	**11,056,236**	-
Corporate loan from Ultimate Parent	**2,759,214**	-
Management fee payable to the Ultimate Parent (note 21)	**39,359**	-
Trade and other receivables	**8,526**	-
Government of Abu Dhabi:		
Trade and other receivables	**79,011**	30,195

Outstanding borrowings of AED 794,643 thousand (31 December 2017: AED 1,660,100 thousand) are due to banks controlled by the Government of Abu Dhabi and major shareholder of the Ultimate Parent. Finance cost on these borrowings amounted to AED 9,353 thousand (2017: AED 71.9 thousand).

Deposits and bank balances of AED 221,005 thousand are kept with banks controlled by the Government of Abu Dhabi and major shareholder of the Ultimate Parent. Finance income on these deposits amounted to AED 45 thousand for the year ended 31 December 2018.

Letter of credits and bank guarantees issued through banks controlled by the Government of Abu Dhabi and major shareholder of the Ultimate Parent amounted to AED 200 thousand for the year ended 31 December 2018 (2017: AED 200 thousand).

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES continued

Under the Facility Agreement executed on 2 September 2018, the Ultimate Parent has provided the Group with a total borrowing facility amounting to AED 3,000,000 thousand with a termination date at 7 years from the date of utilisation. The loan carries interest at 1% + 3M EIBOR. The balance as at 31 December 2018, represents the amount utilised by the Group under the Facility. The facility has been utilised to adjust the additional capital contribution by the Ultimate Parent.

Key management compensation
There were no key management compensation charged to the Group.

Significant transactions with related parties during the year are as follows:

	2018	*2017*
	AED'000	*AED'000*
Government of Abu Dhabi:		
Revenue	**142,521**	142,171
Ultimate Parent:		
Management fee	**39,359**	-
Revenue	**26,233**	14,037

Transactions between Ultimate Parent and the Group are disclosed in notes 13, 14 and 21 to the consolidated financial statements.

26 COMMITMENTS AND CONTINGENCIES

26.1 Capital commitments

Capital expenditure contracted but not yet incurred at the end of the year is as follows:

	2018	*2017*
	AED'000	*AED'000*
Investment properties under development	**7,178**	159,709

The above commitments are spread over a period of one to five years.

26.2 Operating lease commitments

The Group has leased out certain properties. The amounts of committed future lease inflows are as follows:

The Group as lessor

	2018	*2017*
	AED'000	*AED'000*
Buildings:		
Within one year	**630,514**	627,045
In the second to fifth year	**1,116,588**	1,179,352
After five years	**495,725**	539,467
	2,242,827	2,345,864

26 COMMITMENTS AND CONTINGENCIES continued

26.2 Operating lease commitments continued

Following the election to adopt IFRS 16, the resulting impact on the income statement and statement of cash flows is as follows:

The Group as lessee

	2018 ***AED'000***	*2017* *AED'000*
Unwinding of interest expense during the year on lease liabilities	**9,216**	10,224
Total cash outflow in respect of leases	**30,732**	20,718

26.3 Contingencies

	2018 ***AED'000***	*2017* *AED'000*
Letters of credit and bank guarantees		
Issued by the Group	**200**	200

27 FINANCIAL INSTRUMENTS

27.1 Categories of financial instruments

	2018 ***AED'000***	*2017* *AED'000*
Financial assets		
Loans and receivables (including cash and bank balances)	**589,842**	356,770
Financial liabilities		
Financial liabilities measured at amortised cost	**7,446,148**	5,900,001

27.2 Financial risk management

The Ultimate Parent's Corporate Finance and Treasury function provides services to the Group, coordinates access to domestic and international financial markets, monitors and manages financial risks based on internally developed models, benchmarks and forecasts. 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 into or trade financial instruments, including derivative financial instruments, for speculative purposes.

27 FINANCIAL INSTRUMENTS continued

27.3 Capital risk management

Capital risk is the risk that the Group is not able to manage its capital structure to ensure that the Group will be able to continue as a going concern.

The capital structure comprises non-convertible Sukuk, borrowings, cash and bank balances and loan from the Ultimate Parent.

The Group monitors and adjusts its capital structure with a view to promote the long-term success of the Group while maintaining sustainable returns for shareholders. This is achieved through a combination of risk management actions including monitoring solvency, minimising financing costs, rigorous investment appraisals and maintaining high standards of group conduct.

Key financial measures that are subject to regular review include cash flow projections and assessment of their ability to meet contracted commitments, projected gearing levels and compliance with borrowing covenants, although no absolute targets are set for these.

The Group monitors its cost of debt on a regular basis. At 31 December 2018, the weighted average cost of debt was 3.99% (2017: 3.75%). Investment and opportunities are evaluated against an appropriate cost capital in order to ensure that long-term shareholder value is created. The Group has a policy of maintaining gross debt as a percentage of the asset portfolio value of between 35 and 40%.

The covenants of four (2017: nine) borrowing arrangements require the Group maintaining a minimum tangible net worth of AED 4 billion.

27.4 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

a) Foreign currency risk management

The Group has no significant cross-border trading transactions and therefore, foreign exchange transaction exposure is negligible. However, it does borrow money in foreign currencies primarily in US Dollars. The currency exposure therefore is in relation to the repayment of loans and also the translation risk associated with converting outstanding loan balances back into UAE Dirhams in the consolidated financial statements at the end of each reporting period. The exchange rate between UAE Dirhams and US Dollars is fixed and therefore the Group considers foreign exchange risk associated with repayment of loans and translation as minimum.

Foreign currency sensitivity analysis
The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Liabilities		***Assets***	
	2018 AED'000	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*
US Dollar	**2,836,750**	3,562,514	**64**	-

There is no significant impact on US Dollar as the UAE Dirham is pegged to the US Dollar.

27 FINANCIAL INSTRUMENTS continued

27.4 Market risk management continued

b) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

The Group' exposures to interest rates on financial assets and financial liabilities are detailed in notes 10, 15, and 16.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of asset or liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher/ lower and all other variables were held constant, the Group' profit for the year ended 31 December 2018 would decrease/ increase by AED 23,259 thousand/ AED 23,259 thousand (2017: decrease/ increase by AED 24,700 thousand/ AED 25,700 thousand).

Interest rate swap contracts
Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rate on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

Cash flow hedges
All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the payments on the loan occur simultaneously.

The Group derivative financial instruments were contracted with counterparties operating in the United Arab Emirates.

27.5 Credit risk management

Credit risk in relation to the Group, refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are trade and other receivables and bank and cash balances and derivative financial assets (liquid assets).

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Concentration of credit risk
Concentration of credit risk arise when a number of counterparties are engaged in similar group activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the performance affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in note 9.

The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

27 FINANCIAL INSTRUMENTS continued

27.6 Liquidity risk management

The responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the 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.

The table below summarises the maturity profile of the financial assets and liabilities at 31 December 2018 based on contractual un-discounted maturities.

	< 1 month AED'000	*1 to 3 months AED'000*	*3 months to 1 year AED'000*	*1 to 5 years AED'000*	*>5 years AED'000*	*Total AED'000*
31 December 2018						
Financial assets						
Non-interest bearing instruments	**246,242**	**-**	**335,119**	**-**	**-**	**581,361**
Derivative instruments	**-**	**-**	**-**	**8,481**	**-**	**8,481**
Total	**246,242**	**-**	**335,119**	**8,481**	**-**	**589,842**
Financial liabilities						
Non-interest bearing instruments	**20,717**	**263,085**	**-**	**-**	**-**	**283,802**
Non-convertible Sukuk	**-**	**-**	**17,813**	**95,000**	**1,873,514**	**1,986,327**
Variable interest rate instruments	**9,703**	**17,676**	**53,429**	**4,915,561**	**453,290**	**5,449,659**
Lease liability	**30,247**	**6,560**	**7,719**	**100,027**	**144,815**	**289,368**
Derivative instruments	**-**	**-**	**-**	**5,543**	**-**	**5,543**
Total	**60,667**	**287,321**	**78,961**	**5,116,131**	**2,471,619**	**8,014,699**
31 December 2017						
Financial assets						
Non-interest bearing instruments	180,084	-	176,686	-	-	356,770
Total	180,084	-	176,686	-	-	356,770
Financial liabilities						
Non-interest bearing instruments	16,778	233,316	-	-	-	250,094
Non-convertible Sukuk	-	-	2,795,180	-	-	2,795,180
Variable interest rate instruments	9,182	58,304	814,073	1,477,366	517,278	2,876,203
Lease liability	-	14,651	5,680	79,301	146,177	245,809
Derivative instruments	-	-	5,748	-	-	5,748
Total	25,960	306,271	3,620,681	1,556,667	663,455	6,173,034

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	As at 31 December 2018		*As at 31 December 2017*	
	Gross carrying amount AED'000	***Fair value AED'000***	*Gross carrying amount AED'000*	*Fair value AED'000*
Financial liabilities at amortised cost				
Non-convertible sukuk	**1,831,951**	**1,839,285**	2,762,570	2,800,722

29 SEGMENT INFORMATION

29.1 Business segments

Segment information about the Group continuing operations for the year ended 31 December 2018 is presented below:

	Investment properties AED'000	*Hospitality and leisure AED'000*	*Cooling assets AED'000*	*Total AED'000*
Revenue and management fee excluding service charges	**1,271,461**	**450,840**	**-**	**1,722,301**
Revenue from service charges	**106,696**	**-**	**-**	**106,696**
Gross revenue	**1,378,157**	**450,840**	**-**	**1,828,997**
Cost of revenue excluding service charges	**(169,210)**	**(364,483)**	**-**	**(533,693)**
Service charge expenses	**(106,696)**	**-**	**-**	**(106,696)**
Gross profit	**1,102,251**	**86,357**	**-**	**1,188,608**
Depreciation and amortisation	**(450)**	**(108,426)**	**-**	**(108,876)**
Provisions, impairments and write downs, net	**(45,993)**	**29,416**	**-**	**(16,577)**
Fair value loss on investment properties	**(670,077)**	**-**	**-**	**(670,077)**
Finance income	**45**	**-**	**-**	**45**
Other income	**14,472**	**-**	**-**	**14,472**
Segment profit	**400,248**	**7,347**	**-**	**407,595**
Selling and marketing expenses				**(3,673)**
General and administrative expenses				**(47,976)**
Finance costs				**(187,946)**
Management fee				**(39,359)**
Profit for the year				**128,641**

Segment information about the continuing operations for the year ended 31 December 2017 is presented below:

	Investment properties AED'000	*Hospitality and leisure AED'000*	*Cooling assets AED'000*	*Total AED'000*
Revenue and management fee excluding service charges	1,288,767	479,840	-	1,768,607
Revenue from service charges	110,071	-	-	110,071
Gross revenue	1,398,838	479,840	-	1,878,678
Cost of revenue excluding service charges	(165,117)	(380,429)	-	(545,546)
Service charge expenses	(110,071)	-	-	(110,071)
Gross profit	1,123,650	99,411	-	1,223,061
Depreciation and amortisation	(603)	(113,375)	-	(113,978)
Provisions, impairments and write downs, net	(9,935)	(32,900)	-	(42,835)
Fair value loss on investment properties	(459,013)	-	-	(459,013)
Gain on disposal of investment properties	3,835	-	-	3,835
Finance income	10,062	-	-	10,062
Segment profit/ (loss)	667,996	(46,864)	-	621,132
Selling and marketing expenses				(8,846)
General and administrative expenses				(70,928)
Finance costs				(218,285)
Profit for the year				323,073

29 SEGMENT INFORMATION continued

29.1 Business segments continued

The segment assets and liabilities and capital and project expenditure are as follows:

	Investment properties AED'000	*Hospitality and leisure AED'000*	*Unallocated AED'000*	*Cooling assets AED'000*	*Total AED'000*
As at 31 December 2018					
Assets	**15,802,701**	**2,707,609**	**16,843**	**727,119**	**19,254,272**
Liabilities	**6,722,911**	**1,144,733**	**96,521**	**240,246**	**8,204,411**
For the year ended 31 December 2018					
Capital expenditures	**97,665**	**390,177**	**-**	**637,000**	**1,124,842**
Project expenditures	**1,911,340**	**-**	**-**	**-**	**1,911,340**
As at 31 December 2017					
Assets	14,329,834	2,347,554	71,469	-	16,748,857
Liabilities	998,279	136,217	5,404,098	-	6,538,594
For the year ended 31 December 2017					
Capital expenditures	23,590	14,165	-	-	37,755
Project expenditures	901,730	-	-	-	901,730

Segment profit represents the profit earned by each segment without allocation of central administration, selling and marketing expenses other gains and losses, finance income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than borrowings and non-convertible bonds and other financial liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

29.2 Geographical segments

The Group operated only in one geographical segment, i.e., United Arab Emirates.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue on 27 May 2019 by the Board of Directors.