

Al Qudra Holding PJSC

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Al Qudra Holding PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2016

Financial Highlights

2016 was a year of achievements as well as challenges. While the world went through economic and structural changes that had a direct impact on the overall business sentiments it also brought opportunities to the region.

Al Qudra managed numerous challenges since the global financial crisis and has maintained its outstanding results reporting five consecutive years of profit growth from 2012. In 2016 the company recorded a profit of AED 264 million which is 30% higher than 2015. This is being reflected in the earning per share of 0.34 fils in 2015 increasing to 0.44 fils in 2016. The net Equity attributable to shareholders also grew from AED 998 million to AED 1,221 million representing 22% growth of shareholders value.

This year Al Qudra completed 90 % of the Emirati Housing program and it is expected 100% completion by July 2017. This highly successful project not only enhanced our financial results but it also brings us pride as a responsible corporate citizen.

In January 2017 Al Qudra was awarded the Traditional Souq project by Abu Dhabi Municipality. The construction value of the project is in the range of AED 800 million. This tourist destination is well situated opposite to Sheikh Zayed Mosque and will create a harmonious environment with the surrounding attractions. The souq will house about 200 retail shops, 28 signature restaurants, family friendly social facilities with a 100 room boutique hotel as well as 20,000sqm of heritage space.

Al Sadu project, a mixed used residential commercial project located on Al Reem Island is in progress. The final balance for the land of AED 161 million was fully settled. The new design of the five towers will comprise of 1,239 apartments with 6,000 sqft of retail space. The strategy is to retain a portion of the project to maintain a sustainable recurring rental income.

Our land subdivision continued to sell well along with Al Naseem 93 villa residential development. The commercial center and the ladies club will be retained as part of our strategy for assets management and securing sustainable income.

Hospitality sector experienced a challenging year with changes in economic conditions and sizeable supplies that came on to the market. Holiday Inn Abu Dhabi still outperformed its peer group and continued to trade profitably with average occupancy rate in excess of 80%.

Kasr Al Bahr a 228 keys 5 star hotel in Rabat, Morocco is underway. This project is anticipated to be completed by 2019 and will be managed by renowned international operator Four Seasons. Enabling works and excavation is completed. Tendering process for the main works commenced in March, 2017.

Smart hotel is a new hotel concept by Al Qudra in order to cater for middle level business market in Morocco. The pilot project to roll out a chain of 15 business hotels started with a 16 room small boutique hotel, which was completed in October 2016, with an average occupancy rate of 80%. It is located in Rabat commercial district with close proximity to the central railway station.

Our direct investment portfolio continued to deliver strong dividend income and remains a key source of recurring income. In 2016, Al Qudra expanded its portfolio into the healthcare and financial sectors. The board continues to review new opportunities to maintain a well-balanced investment portfolio.

In 2017 Al Qudra will be a stronger entity after its acquisition of Al Rayan Investment PSC. The process commenced as per the laid down road map. The conversion and subscription of this Swap of Share Transaction will take place in the month of May 2017 and the expected reporting formalities and company being taken over will be effected in June, 2017.

The combined net assets post acquisition will be around AED 2 billion. The acquisition will enhance our book value per share as well as strengthening our recurring income and broader investment opportunities. I am excited with this merger and the opportunities that will arise therefrom will continue the success story

The success of Al Qudra comes with the dedication of our board, executive management and staff and I would like to take this opportunity to thank them all for their contributions.

Release

The Directors propose to discharge the Chairman and Members of the Board of Directors and the External Auditors from liabilities related to the performance of their duties for the year ended 31 December, 2016



Mohamed Bin Thaalooob Al Derei – Chairman

On behalf of the Board of Directors

Al Qudra Holding PJSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

AL QUDRA HOLDING PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Qudra Holding PJSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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 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 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 4 to the consolidated financial statements relating to the Group's plot of land in Syria.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with 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.

Responsibilities of management and Board of Directors for the consolidated financial statements

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

AL QUDRA HOLDING PJSC continued

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL QUDRA HOLDING PJSC continued

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) the Group has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Articles of Association of the Company;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- v) investments in shares and stocks are included in note 6 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2016;
- vi) note 10 reflects the disclosures relating to related parties and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially impact its activities or its financial position as at 31 December 2016; and
- viii) there were no social contributions made during the year.



Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No 811

12 April 2017
Abu Dhabi

Al Qudra Holding PJSC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 AED' 000	2015 AED' 000
Continuing operations			
Revenue		979,970	1,604,218
Cost of goods and services		<u>(598,915)</u>	<u>(1,120,927)</u>
Gross profit		381,055	483,291
Dividend income from financial assets at fair value through other comprehensive income		43,443	39,286
General and administrative expenses		(93,294)	(94,256)
Selling and marketing expenses		(20,426)	(13,703)
Share of results of joint ventures	5	(997)	(1,744)
Share of results of associates	5	11,425	7,554
Gain on disposal of an associate	5	-	9,594
Loss on change in fair value of investment properties	4	(116,574)	(17,220)
Provisions and write-offs, net	22	(45,282)	(167,588)
Other income, net	14	136,004	11,259
Interest income		2,617	3,148
Finance costs	23	<u>(34,060)</u>	<u>(55,383)</u>
Profit from continuing operations		263,911	204,238
Discontinued operations			
Loss from discontinued operations	13	<u>(11)</u>	<u>(1,569)</u>
PROFIT FOR THE YEAR	24	<u>263,900</u>	<u>202,669</u>
Attributable to:			
Equity holders of the parent company		263,529	206,318
Non-controlling interests		<u>371</u>	<u>(3,649)</u>
		<u>263,900</u>	<u>202,669</u>
Basic and diluted profit per share (AED)			
From continuing and discontinued operations	25	<u>0.439</u>	<u>0.343</u>
From continuing operations	25	<u>0.439</u>	<u>0.346</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

Al Qudra Holding PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 AED' 000	2015 AED' 000
Profit for the year		<u>263,900</u>	<u>202,669</u>
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Exchange differences arising on translation of overseas operations		<u>(159)</u>	<u>(1,779)</u>
Items that will not be reclassified to statement of income:			
Changes in fair value of financial assets measured at fair value through other comprehensive income		<u>7,241</u>	<u>61,049</u>
Other comprehensive income for the year		<u>7,082</u>	<u>59,270</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>270,982</u>	<u>261,939</u>
Total comprehensive profit attributable to:			
Equity holders of the parent company		<u>270,611</u>	<u>265,588</u>
Non-controlling interests		<u>371</u>	<u>(3,649)</u>
		<u>270,982</u>	<u>261,939</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

Al Qudra Holding PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

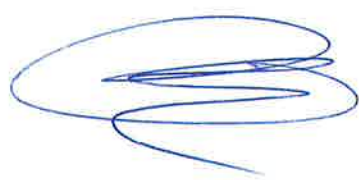
	<i>Notes</i>	2016 AED' 000	2015 AED' 000
ASSETS			
Non-current assets			
Property, plant and equipment	3	300,304	372,626
Investment properties	4	426,237	491,237
Investment in associates	5	56,510	32,596
Investment in joint ventures	5	10,020	14,438
Financial assets carried at fair value through other comprehensive income	6	575,934	660,153
Long term trade receivables	7	132,493	200,636
Due from related parties	10	7,866	9,341
		<u>1,509,364</u>	<u>1,781,027</u>
Current assets			
Inventories	21	71,604	70,551
Development work in progress	8	414,813	407,495
Trade and other receivables	9	249,103	221,907
Amounts due from related parties	10	27,321	33,272
Advances and prepayments	11	107,669	150,809
Bank balances and cash	12	134,154	119,633
		<u>1,004,664</u>	<u>1,003,667</u>
Assets classified as held for sale	13	14,057	32,461
		<u>1,018,721</u>	<u>1,036,128</u>
TOTAL ASSETS		<u>2,528,085</u>	<u>2,817,155</u>

Al Qudra Holding PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

At 31 December 2016

	Notes	2016 AED' 000	2015 AED' 000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	15	600,000	600,000
Statutory reserve	16	246,357	219,967
Retained earnings		209,843	19,529
Foreign currency translation reserve		(6,057)	(5,898)
Cumulative changes in fair value		<u>170,753</u>	<u>164,687</u>
Equity attributable to equity holders of the parent Company		1,220,896	998,285
Non-controlling interests		<u>(44,309)</u>	<u>(44,680)</u>
Net equity		<u>1,176,587</u>	<u>953,605</u>
Non-current liabilities			
Trade and other payables	19	226,526	206,764
Interest bearing loans and borrowings	20	196,144	182,403
Employees' end of service benefits	18	<u>8,329</u>	<u>6,903</u>
		<u>430,999</u>	<u>396,070</u>
Current liabilities			
Trade and other payables	19	513,691	680,790
Interest bearing loans and borrowings	20	232,082	421,944
Amounts due to related parties	10	39,691	96,028
Accrued expenses		<u>41,874</u>	<u>157,854</u>
		<u>827,338</u>	<u>1,356,616</u>
Liabilities directly associated with assets classified as held for sale	13	<u>93,161</u>	<u>110,864</u>
		<u>920,499</u>	<u>1,467,480</u>
Total liabilities		<u>1,351,498</u>	<u>1,863,550</u>
TOTAL EQUITY AND LIABILITIES		<u>2,528,085</u>	<u>2,817,155</u>



Chairman



Board Member

The attached notes 1 to 27 form part of these consolidated financial statements.



Al Qudra Holding PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the parent company						Non - controlling interest AED '000	Total AED '000
	Share capital AED '000	Statutory reserve AED '000	(Accumulated losses) / retained earnings AED '000	Foreign currency translation reserve AED '000	Cumulative changes in fair value AED '000	Total AED '000		
Balance at 1 January 2015	600,000	199,700	(117,641)	(4,119)	96,757	774,697	(41,031)	733,666
Reclassification of loss on disposal of financial assets measured at fair value through other comprehensive income	-	-	(6,881)	-	6,881	-	-	-
Profit for the year	-	-	206,318	-	-	206,318	(3,649)	202,669
Other comprehensive (loss) income for the year	-	-	-	(1,779)	61,049	59,270	-	59,270
Total comprehensive income (loss) for the year	-	-	206,318	(1,779)	61,049	265,588	(3,649)	261,939
Dividend paid (note 15)	-	-	(42,000)	-	-	(42,000)	-	(42,000)
Transfer to statutory reserve (note 16)	-	20,267	(20,267)	-	-	-	-	-
Balance at 31 December 2015	600,000	219,967	19,529	(5,898)	164,687	998,285	(44,680)	953,605
Balance at 1 January 2016	600,000	219,967	19,529	(5,898)	164,687	998,285	(44,680)	953,605
Reclassification of gain on disposal of financial assets measured at fair value through other comprehensive income	-	-	1,175	-	(1,175)	-	-	-
Profit for the year	-	-	263,529	-	-	263,529	371	263,900
Other comprehensive (loss) income for the year	-	-	-	(159)	7,241	7,082	-	7,082
Total comprehensive income (loss) for the year	-	-	263,529	(159)	7,241	270,611	371	270,982
Dividend paid (note 15)	-	-	(48,000)	-	-	(48,000)	-	(48,000)
Transfer to statutory reserve (note 16)	-	26,390	(26,390)	-	-	-	-	-
Balance at 31 December 2016	600,000	246,357	209,843	(6,057)	170,753	1,220,896	(44,309)	1,176,587

The attached notes 1 to 27 form part of these consolidated financial statements.

Al Qudra Holding PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 AED' 000	2015 AED' 000
OPERATING ACTIVITIES		
Profit for the year	263,900	202,669
Adjustments for:		
Depreciation of property, plant and equipment	10,005	7,499
Dividend income	(43,443)	(39,286)
Share of results from joint ventures	997	1,744
Share of results from associates	(11,425)	(7,554)
Changes in fair value of investment properties, net	116,574	17,220
Provision for employees' end of service benefit, net	1,065	(1,335)
Gain on disposal of an associate	-	(9,594)
Provisions and write-offs	45,282	167,894
Interest income	(2,617)	(3,147)
Finance costs	<u>34,060</u>	<u>55,200</u>
	414,398	391,310
Working capital adjustments:		
Amounts due from related parties	7,167	11,391
Inventories	(930)	3,571
Development work in progress	(8,081)	23,551
Trade and other receivables	48,192	185,744
Advances and prepayments	37,638	75,554
Trade and other payables	(150,949)	(229,368)
Amounts due to related parties	(65,845)	(100,412)
Accrued expenses	<u>(120,202)</u>	<u>13,454</u>
Net cash flows from operating activities	<u>161,388</u>	<u>374,795</u>
INVESTING ACTIVITIES		
Purchase of financial assets carried at fair value through other comprehensive income	(8,269)	-
Proceeds from sale of financial assets carried at fair value through other comprehensive income	99,729	114,712
Proceeds from redemption of financial assets at fair value through other comprehensive income	-	8,258
Proceeds from disposal of shares in an associate	-	19,286
Proceeds from redemption of investment in joint venture	-	3,733
Investment in associate	(15,044)	-
Decrease in time deposits under lien	4,677	1,500
Purchase of property, plant and equipment	(27,375)	(40,167)
Proceeds from disposal of property, plant and equipment	2,773	689
Interest income received	2,617	3,147
Dividends received	<u>45,998</u>	<u>46,280</u>
Net cash flows from investing activities	<u>105,106</u>	<u>157,438</u>
FINANCING ACTIVITIES		
Interest bearing loans and borrowings paid, net	(176,121)	(521,182)
Finance costs paid	(34,060)	(55,200)
Dividends paid	<u>(48,000)</u>	<u>(42,000)</u>
Net cash used in financing activities	<u>(258,181)</u>	<u>(618,382)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,313	(86,149)
Exchange differences arising on translation of foreign operations	4,040	44
Cash and cash equivalents at beginning of the year	<u>122,767</u>	<u>208,872</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>135,120</u>	<u>122,767</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

1 GENERAL

Al Qudra Holding P.J.S.C. (the “Company”) is a Private Joint Stock Company incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE). The Federal Law No. 2 of 2015 concerning commercial companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.

The Company’s main business activities include investing in pioneering business ideas and forming strategic partnerships emanating from focused research and the expertise of its founders. The Company envisages subscribing as founder in potentially successful companies, development, management, sales and leasing of real estate projects, launch and manage educational, hospitality and health care projects and acquire controlling interests in strategic companies.

The Company’s registered office is located at P.O. Box 48111, Abu Dhabi, UAE. The Company and its subsidiaries together are referred to as the “Group”.

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 April 2017.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for investments carried at fair value through other comprehensive income and investment properties that have been measured at fair value.

The consolidated financial statements are presented in UAE Dirhams (“AED”), which is the presentation currency of the Group and all values are rounded to the nearest thousand (AED ‘000) except when otherwise indicated.

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and applicable requirements of laws of the United Arab Emirates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued**2.2 BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Details of the Company's subsidiaries at 31 December 2016 are as follows:

<i>Name of subsidiary</i>	<i>Place of incorporation and operation</i>	<i>Percentage of ownership</i>	<i>Principal activity</i>
Al Qudra Real Estate L.L.C.	UAE	100%	Real estate management
Al Qudra Holding - Morocco	Morocco	100%	General investment
Smart Hotel Management	Morocco	100%	Hotel management
Smart Hotel Properties	Morocco	100%	Hotel management
Kasr Al Bahr	Morocco	100%	Hospitality
Atlantic Coast Hospitality	Morocco	100%	General investment
Al Qudra Holding Offshore	Morocco	100%	Holding Company
Al Qudra Holding - Syria	Syria	100%	General investment
Al Qudra Real Estate	Syria	100%	Real estate management
Al Qudra Trading L.L.C.	UAE	100%	Commercial project investment
Danet Hospitality L.L.C.	UAE	100%	Hotel management
Ain Al Fayda Real Estate L.L.C.	UAE	100%	Real estate management
Al Qudra Facilities Management Services L.L.C.	UAE	100%	Cleaning and general maintenance for buildings and houses and establishments management services
Envo Scape L.L.C.	UAE	100%	Irrigation network contracting and constructing and maintaining parks and landscape design and planning activities
Q General Investments Ltd,	British Virgin Islands	100%	General investment
Al Qudra Services L.L.C (formerly "Al Qudra Suez")	UAE	100%	Environmental plants maintenance
Q International Limited	Cayman Islands	100%	General investment
Manarah Bay Real Estate L.L.C	UAE	100%	Real estate management
Buhyarat Ain Al Fayda Real Estate L.L.C	UAE	100%	Real estate management
Al Qudra New Line Oil & Gas L.L.C.*	UAE	50%	Oil & Gas equipment installation and maintenance services
Q Scape L.L.C	UAE	51%	Building maintenance and landscaping
Q Energy L.L.C	UAE	60%	Oil & Gas equipment installation and maintenance services
Al Qudra Education L.L.C	UAE	100%	Education services
Al Qudra Holding - Algeria	Algeria	100%	General Investment
Al Qudra Holding – International L.L.C	UAE	100%	Industrial Enterprise & Financial Management

*Although the Group owns 50% of the outstanding shares of Al Qudra New Line Oil & Gas LLC, the investment has been classified as a subsidiary by virtue of control over the investee.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All significant intra-group balances, transactions, and profits and losses resulting from intra-group transactions are eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued**2.2 BASIS OF CONSOLIDATION** continued

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company. If the Group loses control over a subsidiary it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Discontinued Operations

The shareholders of the below mentioned subsidiaries unanimously decided to liquidate their operations in accordance with the shareholders' resolutions.

<i>Name of subsidiary</i>	<i>Year</i>
Emirates Simulation Academy L.L.C	2011
Q For Commercial Markets Management L.L.C	2009
Q Link Transport	2010
Q Car Park LLC	2009
Q Active for Technologies L.L.C	2011
ABNIA for Industrial Holding L.L.C	2011
Al Qudra Belarus Ltd.	2011
Al Qudra Holding - Yemen	2011
Al Qudra Holding Industrial L.L.C	2011
Q Parks Establishment	2011
Al Qudra Health Care L.L.C	2011
QP International L.L.C	2011

During the current year, the shareholders resolved to reclassify the below mentioned subsidiaries as continuing operations as the criteria mentioned in "International Financial Reporting Standard 5 – Non-current assets held for sale and Discontinued Operations" to classify these subsidiaries as discontinued operations are no longer met.

<i>Name of subsidiary</i>	<i>Percentage of ownership</i>
Q Scape L.L.C	51%
Q Energy L.L.C	60%
Al Qudra Education L.L.C	100%
Al Qudra Holding - Algeria	100%
Al Qudra Holding – International L.L.C	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued**2.3 NON-CONTROLLING INTERESTS**

Financial Information of subsidiaries that have material non-controlling interests are provided below:

Portion of equity interest held by non-controlling interests:

	<i>2016</i>	<i>2015</i>
Q Energy LLC	40%	40%
Q Link Transport LLC	15%	15%
Emirates Simulation Academy LLC	40%	40%
Q For Commercial Markets Management LLC	40%	40%
Q Car Park LLC	50%	50%
Q Active for Technologies LLC	49%	49%
ABNIA for Industrial Holding LLC	50%	50%
Q Scape LLC	49%	49%
QP International LLC	40%	40%

Accumulated balances of non-controlling interest

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Q Energy LLC	(1,586)	(945)
Q Link Transport LLC	(13,598)	(13,598)
Emirates Simulation Academy LLC	(36,788)	(36,788)
Q Car Park LLC	892	892
Q Active for Technologies LLC	(847)	(847)
ABNIA for Industrial Holding LLC	500	500
Q Scape LLC	(2,885)	(2,885)
QP International LLC	10,003	8,991

Profit/(loss) allocated to material non-controlling interests

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Q Energy LLC	(641)	(1,269)
Q Link Transport LLC	-	-
Emirates Simulation Academy LLC	-	-
Q For Commercial Markets Management LLC	-	-
Q Car Park LLC	-	-
Q Active for Technologies LLC	-	-
ABNIA for Industrial Holding LLC	-	-
Q Scape LLC	1,012	(3,730)
QP International LLC	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued**2.3 NON-CONTROLLING INTERESTS** continued

The table below shows the summarised financial information of the subsidiaries which have non-controlling interest:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Total assets	53,506	47,972
Total liabilities	194,015	189,243
Total equity	(140,510)	(141,271)
Profit (loss) for the year	462	(4,999)

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The Group's accounting policies are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2015, except for the following amendments to IFRS effective as of 1 January 2016 which did not impact the Group's consolidated financial statements or accounting policies:

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the Consolidation exception
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- IFRS 14 Regulatory Deferral Accounts
- Improvements 2012-2014 Cycle

These improvements include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Investments in associates and joint ventures**

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investments in associates and joint ventures continued

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects the Group's share of the results of operations of the associates and joint ventures. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income.

In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. When the consideration is deferred, the fair value is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and nominal amount of the consideration is accrued and recognised as interest revenue on a time basis.

Sale of properties and goods

Revenues from the sale of properties and goods are recognised when equitable interest in a property vests in the buyer and all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties or goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties or goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services including construction contracts is recognised by reference to the stage of completion of the contract. The stage of completion of the time and material contracts is recognised by reference to the labour hours delivered and direct expenses incurred.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Leases payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

The consolidated financial statements are presented in UAE Dirhams (AED), which is the parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are recorded at the respective functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the respective functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange foreign currency rates for the year. Exchange differences arising, if any, are transferred to the Group's foreign currency translation reserve in equity. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

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 profit or loss in the period which they are incurred.

Government grants

Land granted by the Government of Abu Dhabi is recognised at nominal value where there is reasonable assurance that the land will be received and the Group will comply with any attached conditions, where applicable.

Financial instruments

Financial instruments – initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place

Initial measurement

All financial instruments are initially measured at their fair value plus transaction costs, except for those financial assets and financial liabilities measured at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on the Group's business model for managing those financial assets and their contractual cash flow characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

Financial assets measured at amortised cost

Financial assets are measured at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount. An inability to meet these two criteria requires the financial asset to be subsequently measured at fair value through profit or loss. However, even where both conditions are met, the Group may elect upon initial recognition to measure the financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments (including derivatives embedded in financial host assets) meeting these criteria are subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment charges and transaction costs incurred upon initial recognition. The effective interest rate method calculates an interest rate which exactly discounts estimated future cash receipts through the expected life of the financial asset or a shorter period (where appropriate) to the net carrying amount of the financial asset. After initial measurement at fair value, long term receivables, short term trade and other receivables, due from related parties and bank balances and cash are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The amortisation is included in interest income in the income statement. The losses arising from impairment are recognised in the income statement.

Other financial assets measured at fair value through profit or loss

Financial assets which do not meet the amortised cost criteria such as derivatives and financial assets held for trading are measured at fair value through profit or loss. Gains or losses arising on subsequent measurement of these financial assets are recognised in the income statement.

Financial assets or financial liabilities held-for-trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in the consolidated income statement. Interest and dividend is recorded in the consolidated income statement according to the terms of the contract, or when the right to the payment has been established.

Equity investments at fair value through other comprehensive income

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition and such an election is irrevocable. This designation is made on an instrument-by-instrument basis. Gains or losses arising on subsequent measurement of these equity investments are recognised in other comprehensive income. The gain or loss on disposal of the asset is reclassified to retained earnings and is not recycled to profit or loss. Transaction costs on disposal are taken to the income statement. Dividends received on these equity investments are recognised in the income statement unless the dividend represents recovery of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management at initial recognition. Management may designate a financial asset at fair value through profit or loss upon initial recognition only when the first of the following criteria are met. A financial liability may be so designated when any of the three criteria are met. Designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets and liabilities designated at fair value through profit or loss, except that the fair value change attributable to credit risk in respect of the financial liabilities is recognised in other comprehensive income, provided that there is no measurement mismatch arising from such recognition. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of property, plant and equipment is their purchase cost together with any incidental costs of acquisition.

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 profit or loss during the financial period in which they are incurred.

Depreciation is charged so as to write off the cost of property, plant and equipment on a straight-line basis over the expected useful economic lives of the assets concerned as follows:

Building	40 years
Machineries and equipment	4 years
Office and computer equipment	4 - 5 years
Motor vehicles	4 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	lower of lease term or 4 years
Other assets	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued

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

Freehold land is not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the consolidated income statement when the asset is derecognized.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Capital work in progress

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Group's policies.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its 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

Development work in progress

Development work in progress consists of property being developed principally for sale and is stated at the lower of cost or net realisable value. Cost comprises all direct costs attributable to the design and construction of the property including staff costs. Net realisable value is the estimated selling price in the ordinary course of the business less applicable variable selling expenses.

Inventories

Inventories are stated at the lower of cost or net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, valued on a first-in-first-out basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets

At end of each reporting period, the Group reviews the carrying amounts of its assets whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the reporting period.

The Group provides end of service benefits for its non-local employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to profit or loss during the employees' period of service.

Trade receivables

Trade receivables are stated at original invoice amount net of provisions for amounts estimated to be impaired. A provision for doubtful debts is made when collection of the full amount is no longer possible. Bad debts are written off when there is no possibility of recovery.

Cash and short term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three month or less.

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits as defined above, net of deposits under lien.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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 the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated income statement.

Fair value measurement

The Group measures financial instruments such as financial assets at fair value through other comprehensive income at fair value at each statement of financial position date.

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

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

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

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

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

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property plant and equipment and/or land held for resale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property plant and equipment and land held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by management.

Classification of investments in subsidiaries, joint ventures and associates

Management made assessment on the extent of control or influence over the entities considered subsidiaries, joint ventures and associates. Management is satisfied that the investments are appropriately classified after consideration of the Group's control or influence over the operational and financial policies of these entities.

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 discussed below:

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on projected product lifecycles. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of investments in joint ventures and associates

Management regularly reviews its investments in joint ventures and associates for indicators of impairment. This determination of whether investments in joint ventures and associates are impaired entails Management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in profit or loss.

Valuation of unquoted equity investments carried at fair value through other comprehensive income

Valuation of unquoted equity investments carried at fair value through other comprehensive income is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. Management believes that the unquoted equity investments are properly stated at fair value as of 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Impairment of development work in progress

Properties classified under development work in progress are assessed for impairment based on cash flows when there is indication that those assets have suffered an impairment loss. Cash flows are determined based on contractual agreements or future expected selling prices and estimations of total costs until the properties are completed. Any impairment losses determined by the Group are recorded in profit or loss.

Fair value of investment properties

In order to assess the fair value of investment properties, the Group engages the services of third party professional appraisers. Management believes that the appraised value reflects the true fair value of properties in light of current economic situations and taking into consideration specific matter referred to in Note 4. The total fair value of investment properties at 31 December 2016 amounted to AED 426,237 thousand (2015: AED 491,237 thousand). If fair value increases/decreases by 10%, the change in fair value of investment properties recognised in profit or loss for the year ended 31 December 2016 will increase/decrease by AED 42,624 thousand.

Impairment of trade and other receivables and due from related parties

An estimate of the collectible amount of trade and other receivables and due from related parties is made when collection of the full amount is no longer probable. This determination of whether the receivables are impaired entails Management's evaluation of the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including discussion with legal department and review of current economic environment. Management believes that the recorded provision is sufficient to cover anticipated losses and taking into consideration specific matters discussed below.

Provisions for reduction in gross floor area of properties

The Group had legal title to a plot of land located in Abu Dhabi, United Arab Emirates. The plot of land is kept as an investment property, and is valued at AED 348 million as at 31 December 2016 (2015: AED 340 million).

In 2009, the Group received recommendations and guidelines from the Abu Dhabi Urban Planning Council (UPC) that highlighted the need to significantly reduce the development density (up to 53% reduction in the proposed gross floor area (GFA)), due to traffic accessibility constraints. The Company has engaged an independent traffic consultant to undertake a transportation impact study in an attempt to identify traffic mitigation solutions in order to address UPC's concerns and minimise the reduction in GFA for above said plot of land. Based on recent communication with UPC and review of technical studies done by the traffic consultant, management believes that a 30% reduction (2015: 30% reduction) is the best reasonable estimate for the change in GFA of the subject properties. The discussions with UPC are currently ongoing.

Based on the above, an estimated reduction in the fair value of the investment property amounting to AED 104.4 million was recognised which is equivalent to 30% of the fair value of the investment property at 31 December 2016. If the final GFA approved by UPC increases/decreases by 5%, the provision for change in fair value will increase/decrease by AED 17.4 million.

Valuation of assets classified as held for sale

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Management has reviewed the assets classified as held for sale and has determined the fair value less costs to sell based on market research and current economic environment. During the year, management has recognised an impairment loss amounting to AED nil (2015: AED nil) to write-down the carrying amounts of the assets held for sale to their fair values less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 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.

IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The Group is in the process of assessing the impact of the new amendment.

IFRS 9: Financial Instruments - impairment introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is in the process of assessing the impact of the new amendment.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently in the process of assessing the impact on IFRS 15 on its financial statements.

IAS 7 Disclosure Initiative - Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated income statement.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group is currently evaluating its impact.

Al Qudra Holding PJSC

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3 PROPERTY, PLANT AND EQUIPMENT

	Land and building AED '000	Machineries and equipment AED '000	Motor vehicles AED '000	Office and computer equipment AED '000	Furniture and fixtures AED '000	Leasehold improvements AED '000	Other assets AED '000	Capital work in progress AED '000	Total AED '000
Cost:									
At 1 January 2015	207,107	52,652	1,735	12,183	7,044	5,469	17,857	179,488	483,535
Additions	-	116	253	79	514	-	6,065	33,140	40,167
Disposals	-	-	(270)	(173)	(269)	-	(129)	-	(841)
Transfers	5,316	-	-	-	-	-	-	(5,316)	-
Reclassified to investment properties (note 4)	-	-	-	-	-	-	-	(120)	(120)
Net foreign currency exchange differences	(466)	-	(8)	(12)	(4)	-	(422)	(1,148)	(2,067)
At 31 December 2015	211,957	52,768	1,710	12,077	7,285	5,469	23,364	206,044	520,674
At 1 January 2016	211,957	52,768	1,710	12,077	7,285	5,469	23,364	206,044	520,674
Reclassified from discontinued operations	-	65	773	749	411	70	21	133	2,222
At 1 January 2016 (reclassified)	211,957	52,833	2,483	12,826	7,696	5,539	23,385	206,177	522,896
Additions	9,601	56	114	152	179	-	446	16,827	27,375
Disposals	-	(5)	-	(8)	-	-	(31)	(2,758)	(2,802)
Transfers	60,652	531	-	392	9,723	-	(4,288)	(67,010)	-
Reclassified to investment properties (note 4)	-	-	-	-	-	-	-	(51,574)	(51,574)
Net foreign currency exchange differences	(784)	-	(2)	(15)	(4)	-	(63)	(36)	(904)
At 31 December 2016	281,426	53,415	2,595	13,347	17,594	5,539	19,449	101,626	494,991
Accumulated depreciation and impairment:									
At 1 January 2015	35,336	52,070	1,300	11,880	6,482	5,458	15,399	9,583	137,508
Charge for the year	6,152	30	103	143	41	11	1,019	-	7,499
Disposals	-	-	(54)	(173)	(269)	-	(52)	-	(548)
Net foreign currency exchange differences	(246)	(14)	(4)	(18)	(3)	-	(3)	-	(288)
Impairment loss	-	-	-	-	-	-	-	3,877	3,877
At 31 December 2015	41,242	52,086	1,345	11,832	6,251	5,469	16,363	13,460	148,048
At 1 January 2016	41,242	52,086	1,345	11,832	6,251	5,469	16,363	13,460	148,048
Reclassified from discontinued operations	-	62	689	668	289	70	13	-	1,791
At 1 January 2016 (reclassified)	41,242	52,148	2,034	12,500	6,540	5,539	16,376	13,460	149,839
Charge for the year	7,273	143	150	188	2,045	-	206	-	10,005
Disposals	-	(2)	-	(6)	-	-	(21)	-	(29)
Net foreign currency exchange differences	(88)	-	(1)	(7)	(2)	-	(30)	-	(128)
Impairment loss	-	-	-	-	-	-	-	35,000	35,000
At 31 December 2016	48,427	52,289	2,183	12,675	8,583	5,539	16,531	48,460	194,687
Carrying amount:									
At 31 December 2016	232,999	1,126	412	672	9,011	-	2,918	53,166	300,304
At 31 December 2015	170,715	682	365	245	1,034	-	7,001	192,584	372,626

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3 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge for the year has been allocated as follows:

	<i>2016</i> <i>AED' 000</i>	<i>2015</i> <i>AED' 000</i>
Cost of goods and services	4,854	5,775
General and administrative expenses	<u>5,151</u>	<u>1,724</u>
	<u>10,005</u>	<u>7,499</u>

4 INVESTMENT PROPERTIES

Investment properties consist of the following plots of land:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
<i>Location:</i>		
Abu Dhabi, UAE Manarah Bay	243,600	238,000
Damascus, Syria	92,737	217,737
Ain Al Faydah Resort	35,000	35,500
Al Qudra HQ building, Abu Dhabi, UAE	<u>54,900</u>	<u>-</u>
	<u>426,237</u>	<u>491,237</u>

Movement during the year is as follows:

Fair value at the beginning of the year	491,237	508,337
Reclassified from capital work in progress (note 3)	51,574	120
Change in fair value, net	<u>(116,574)</u>	<u>(17,220)</u>
Fair value at the end of the year	<u>426,237</u>	<u>491,237</u>

The following illustrates the analysis of investment properties recorded at fair value by level of hierarchy:

	<i>Date of valuation</i>	<i>Total</i> <i>AED'000</i>	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
2016					
Investment Properties	31 December 2016	426,237	-	-	426,237
2015					
Investment Properties	31 December 2015	491,237	-	-	491,237

During the year ended 31 December 2015 and 2016, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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31 December 2016

4 INVESTMENT PROPERTIES continued

The fair value of Manarah Bay at 31 December 2016 has been determined by management by reference to valuation carried out by British Arabian, independent valuers not related to the Group. The valuation, which conforms to the Royal institution of Chartered Surveyors Valuation Standards, was arrived at by considering both the Direct Comparison and Residual approaches. The fair value at 31 December 2016 was reduced by AED 104.4 million (2015: reduced by AED 102 million) being the estimated reduction in the GFA of this plot of 30% (2015: 30%) estimated by management. The final GFA of the plot is dependent on the outcome of discussions with UPC and the UPC's final resolution in respect of the reduction of the plot's GFA. The fair value at 31 December 2016 has increased by AED 5.6 million (2015: decreased by AED 16.1 million).

The fair value of Al Ain Fayda Resort at 31 December 2016 has been determined by reference to valuation carried out by British Arabian, independent valuers not related to the Group. The valuation, which conforms to the Royal institution of Chartered Surveyors Valuation Standards, was arrived at by utilizing the investment method of valuation (income capitalization method). The fair value at 31 December 2016 has decreased by AED 500 thousand (2015: decreased by AED 1 million).

Manarah Bay and Ain Al Fayda resort were initially recorded at a nominal value of AED 1 in accordance with the Group's accounting policy for government grants.

The Group has a plot of land in Syria amounting to AED 92,737 thousand as at 31 December 2016 (2015: AED 217,737 thousand). There is uncertainty relating to the Group's ability to derive the economic benefit or recover the value of this land as a result of the current political situation in Syria and the fact that the land is currently occupied by the Syrian army. The fair value of AED 92,737 thousand as at 31 December 2016 has been estimated by management and approved by the Group's Board of Directors. The decrease in fair value amounted to AED 125,000 thousand (2015: AED nil).

During the year, the Group transferred capital work in progress relating to the Group's head office building's ground floor, mezzanine floor and floors 1-3 amounting to AED 51,574 thousand to investment properties as those areas of the property will be used for rental generation. The fair value of those areas of the building as at 31 December 2016 have been determined by reference to a valuation carried out by British Arabian, independent valuers not related to the Group. The valuation, which conforms to the Royal institution of Chartered Surveyors Valuation Standards, was arrived at by utilizing the investment method of valuation (income capitalization method).

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

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Range</i>
Manarah Bay	Residual method	Retails sale rates Residential sale rates Finance costs Debt: Equity ratio Construction time frame Gross development area	AED 21,000/sqm AED 14,500/sqm 7.5% 60: 40 24 months 160,278 sqm
Ain Al Faydah Resort	Income Capitalisation method	Annual Rent Capitalization rate Capitalization period	AED 3 million 7% 24 years
Al Qudra Building	Income Capitalisation method	Annual Rent Yield Useable area Gross development area	AED 1,200/sqm 7.5% 3,430 sqm 4,284 sqm

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

<i>Investee</i>	<i>Principal activity</i>	<i>Ownership interest</i>	<i>Place of registration</i>
Associates			
Q Construction L.L.C.	General contracting	26%	Abu Dhabi
SKM-Q L.L.C.	Trading and operation of refrigeration and air conditioning equipment	50%	Abu Dhabi
Sawaed Employment L.L.C.	Employment agency	10%	Abu Dhabi
Joint ventures			
Al Qudra Sports Management L.L.C	Sports management	50%	Abu Dhabi
Al Qudra Addoha pour L'Investissement Immobilier	Real estate investment	50%	Morocco

During the year, The Company entered into an agreement with a third party to purchase an additional 50% of the equity of Q Construction LLC for an amount of AED 15,044 thousand. The consideration was settled through the transfer of 2.1 million shares of the Company's investment in Growth Gate Capital Corporation BSC. The legal right title of the new 50% equity has not been transferred to the Group as at 31 December 2016 and the Group did not exercise control over Q Construction LLC as of the year end and so the investment was classified as an associate.

Investment in SKM-Q is treated as an associate even though the Group holds 50% of the equity of the investee since the Group does not exercise control or joint control over the operations and decision making function of the investee.

Sawaed Employment L.L.C. is treated as an associate since the Group exercises significant influence over the operations and decision making function of the investee.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

5 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

	Share in net assets at 1 January 2016 AED '000	Additions (disposals) AED '000	Share in profit (loss) AED '000	Dividends AED '000	Transfers AED '000	Share in translation reserves AED '000	Share in net assets at 31 December 2016 AED '000
<i>Associates</i>							
Q Construction L.L.C.	7,280	15,044	-	-	-	-	22,324
SKM-Q L.L.C. (a)	-	-	-	-	-	-	-
Oliva (a)	25,316	-	11,425	(2,555)	-	-	34,186
Sawaheed Employment L.L.C.	32,596	15,044	11,425	(2,555)	-	-	56,510
<i>Joint Ventures</i>							
Al Qudra Sports Management L.L.C	8,236	-	(997)	-	-	-	7,239
Al Qudra Addoha pour L'Investissement Immobilier (c)	6,202	-	-	-	-	(3,421)	2,781
	14,438	-	(997)	-	-	(3,421)	10,020
	Share in net assets at 1 January 2015 AED '000	Additions (disposals) AED '000	Share in profit (loss) AED '000	Dividends AED '000	Transfers AED '000	Share in translation reserves AED '000	Share in net assets at 31 December 2015 AED '000
<i>Associates</i>							
Q Construction L.L.C.	7,280	-	-	-	-	-	7,280
SKM-Q L.L.C. (a)	-	-	-	-	-	-	-
Oliva (a)	16,780	(9,692)	7,554	(4,950)	(9,692)	-	25,316
Viola Communications L.L.C. (b) (note 6)	27,360	-	-	(2,044)	-	-	25,316
Sawaheed Employment L.L.C.	51,420	(9,692)	7,554	(6,994)	(9,692)	-	32,596
<i>Joint Ventures</i>							
Al Qudra Sports Management L.L.C	9,980	-	(1,744)	-	-	-	8,236
Al Qudra Addoha pour L'Investissement Immobilier (c)	10,481	(3,733)	-	-	-	(546)	6,202
	20,461	(3,733)	(1,744)	-	-	(546)	14,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

5 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

- (a) SKM-Q L.L.C. and Oliva are in a net deficit position as at 31 December 2016. The Group accounted for its share of losses of the investees up to the extent of its capital contribution and advances.
- (b) During 2015, the Group signed an agreement to sell part of its investment in Viola Communications L.L.C. ("Viola") resulting in a loss of significant influence over Viola.

AED '000

Proceeds on sale	19,286
Carrying amount of part of associate disposed off	<u>(9,692)</u>
Gain on disposal of associate	<u>9,594</u>

The remaining investment of the Group in Viola was transferred to Financial Assets Carried at Fair Value through Other Comprehensive Income.

- (c) During 2015, the management of Al Qudra Addoha pour L'Investissement Immobilier partially paid back its capital to its shareholders which resulted in a reduction of the Group's investment in the joint venture. The capital pay back had no effect on the Group's percentage shareholding in the joint venture.

Financial information in respect of the Group's associates is summarised below:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Total assets	492,760	421,653
Total liabilities	<u>(119,313)</u>	<u>(139,380)</u>
Net assets	<u>373,447</u>	<u>282,273</u>
Group's share of net assets of associates	<u>56,510</u>	<u>32,596</u>
Total revenue	<u>222,011</u>	<u>58,306</u>
Total profit for the year	<u>54,945</u>	<u>25,179</u>

Summarised financial information in respect of the Group's joint ventures is set out below:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Total assets	134,582	126,606
Total liabilities	<u>(99,141)</u>	<u>(97,730)</u>
Net assets	<u>35,441</u>	<u>28,876</u>
Group's share of net assets of joint ventures	<u>10,020</u>	<u>14,438</u>
Total revenue	<u>65,299</u>	<u>63,734</u>
Total profit (loss) for the year	<u>38</u>	<u>(3,488)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6 FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets carried at fair value through other comprehensive income comprise:

	2016 AED'000	2015 AED'000
Investments in quoted securities	10,905	23,156
Investments in unquoted securities - at fair value	<u>565,029</u>	<u>636,997</u>
	<u>575,934</u>	<u>660,153</u>

The movement in financial assets carried at fair value through other comprehensive during the year is as follows:

	2016 AED'000	2015 AED'000
Carrying value at beginning of the year	660,153	712,382
Transfer from investment in associates (note 5)	-	9,692
Cost of purchases during the year	8,269	-
Carrying value of shares disposed during the year	(93,536)	(114,712)
Redemption of Shares	(6,193)	(8,258)
Increase in fair value	<u>7,241</u>	<u>61,049</u>
Carrying value at end of the year	<u>575,934</u>	<u>660,153</u>

Fair value of certain unquoted investments have been estimated on the basis of recently concluded sales of similar investments confirmed by market intermediaries.

7 LONG TERM TRADE RECEIVABLES

	2016 AED'000	2015 AED'000
Long term trade receivables	136,381	204,876
Less: allowance for doubtful debts	<u>(3,888)</u>	<u>(4,240)</u>
	<u>132,493</u>	<u>200,636</u>

The movement in allowance for doubtful debts is as follows:

	2016	2015
Balance at beginning of the year	4,240	19,240
Reversal during the year (note 22)	<u>(352)</u>	<u>(15,000)</u>
Balance at end of the year	<u>3,888</u>	<u>4,240</u>

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8 DEVELOPMENT WORK IN PROGRESS

Development work in progress represents development and construction costs incurred on properties under construction and are related to the following projects:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Al Saadu project Abu Dhabi	391,626	390,937
Ain Al Faydah	7,890	6,160
Al Nasseem	14,140	7,182
Emirates Investment Park	946	3,216
Others	<u>211</u>	<u>-</u>
	<u>414,813</u>	<u>407,495</u>

Movement during the year is as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Balance at beginning of the year	407,495	515,706
Developments during the year	561,922	1,048,443
Cost charged to cost of sale during the year	(553,841)	(1,071,994)
Write-off and impairment during the year (note 22)	<u>(763)</u>	<u>(84,660)</u>
	<u>414,813</u>	<u>407,495</u>

9 TRADE AND OTHER RECEIVABLES

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Trade receivables	172,933	206,394
Other receivables	<u>133,894</u>	<u>91,636</u>
	306,827	298,030
Less: allowance for doubtful debts	<u>(56,013)</u>	<u>(65,352)</u>
	250,814	232,678
Classified as part of a disposal group held for sale (note 13)	<u>(1,711)</u>	<u>(10,771)</u>
	<u>249,103</u>	<u>221,907</u>

The movement in allowance for doubtful debts is as follows:

Balance at beginning of the year	65,352	27,803
Charge for the year (note 22)	2,745	37,549
Written off during the year	<u>(12,084)</u>	<u>-</u>
Balance at end of the year	<u>56,013</u>	<u>65,352</u>

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10 RELATED PARTIES

The Group, in the ordinary course of business, entered into a variety of transactions at agreed terms and conditions, with companies, entities or individuals that fall within the definition of "related parties" as defined in IAS 24 *Related Party Disclosures*. Related parties mainly comprise the Group's major shareholders, directors and entities related to them, companies under common ownership and/or common management and control, their partners and key management personnel. Pricing policies and terms of these transactions are approved by the Group's management.

Due from related parties at the end of the reporting year comprise:

	2016 AED'000	2015 AED'000
Non-current		
Hydra Properties (<i>Other related party</i>)	2,551	2,551
Connection Real Estate (<i>Other related party</i>)	5,905	5,905
Others	<u>-</u>	<u>2,053</u>
	8,456	10,509
Less: allowance for doubtful debts	<u>(590)</u>	<u>(1,168)</u>
	<u>7,866</u>	<u>9,341</u>
Current		
Al Qudra Addoha pou L'investissement Immobilier (<i>Joint Venture</i>)	46	46
Al Qudra Sports Management (<i>Joint Venture</i>)	21,423	20,985
Hydra Properties (<i>Other related party</i>)	161	161
SKM-Q L.L.C. (<i>Associate</i>)	3,635	3,635
Projects International Dubai (<i>Other related party</i>)	6,868	6,868
Viola Communication LLC (<i>Other related party</i>)	3,630	8,907
Others	<u>3,668</u>	<u>4,521</u>
	39,431	45,123
Less: allowance for doubtful debts	<u>(3,662)</u>	<u>(3,662)</u>
	35,769	41,461
Classified as part of disposal group held for sale (note 13)	<u>(8,448)</u>	<u>(8,189)</u>
	<u>27,321</u>	<u>33,272</u>

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31 December 2016

10 RELATED PARTIES continued

The movement in allowance for doubtful debts is as follows:

	2016 AED'000	2015 AED'000
Non-current		
Balance at beginning of the year	1,168	1,168
Reversal during the year (note 22)	<u>(578)</u>	<u>-</u>
Balance at end of the year	<u>590</u>	<u>1,168</u>
Current		
Balance at beginning of the year	3,662	5,143
Reversal during the year	<u>-</u>	<u>(1,481)</u>
Balance at end of the year	<u>3,662</u>	<u>3,662</u>

Due to related parties at the end of the year comprise:

	2016 AED'000	2015 AED'000
Current		
Q Construction L.L.C. (<i>Associate</i>)	29,500	95,558
Center of Excellence for Applied Research & Training (<i>Other related party</i>)	28,256	28,256
Viola Communications L.L.C. (<i>Other related party</i>)	1,615	183
GSE Power Systems, Inc. (<i>Other related party</i>)	8,065	8,065
Emirates Link Group (<i>Other related party</i>)	4,661	4,661
Lootah BCGas (<i>Other related party</i>)	8,087	9,509
Others	<u>1,222</u>	<u>1,019</u>
	81,406	147,251
Classified as part of disposal group held for sale (note 13)	<u>(41,715)</u>	<u>(51,223)</u>
	<u>39,691</u>	<u>96,028</u>

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

	2016 AED'000	2015 AED'000
Finance income	<u>1,883</u>	<u>2,121</u>
Senior management compensation	<u>26,263</u>	<u>22,473</u>
Loan to a related party	<u>-</u>	<u>4,000</u>

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11 ADVANCES AND PREPAYMENTS

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Advance payment to contractors	84,642	129,650
Advance payment for the acquisition of equity investments	5,725	5,580
Other advances and prepayments	<u>23,149</u>	<u>22,229</u>
	113,516	157,459
Less: allowance for doubtful debts	<u>(3,720)</u>	<u>(3,720)</u>
	109,796	153,739
Classified as part of disposal group held for sale (note 13)	<u>(2,127)</u>	<u>(2,929)</u>
	<u>107,669</u>	<u>150,809</u>
The movement in allowance for doubtful advances is as follows:		
Balance at the beginning of the year	3,720	3,720
Charge for the year	<u>-</u>	<u>-</u>
Balance at end of the year	<u>3,720</u>	<u>3,720</u>

12 CASH AND CASH EQUIVALENTS

The reconciliation of bank balances and cash as stated in the consolidated statement of financial position and cash and cash equivalents as stated in the consolidated statement of cash flows is as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Current and call bank accounts and cash	113,856	84,060
Time deposits - short term	<u>20,298</u>	<u>35,573</u>
	134,154	119,633
Less: deposits under lien	<u>(594)</u>	<u>(5,271)</u>
	133,560	114,362
Classified as part of disposal group held for sale (note 13)	<u>1,560</u>	<u>8,405</u>
	<u>135,120</u>	<u>122,767</u>

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13 DISCONTINUED OPERATIONS AND SUBSIDIARIES HELD FOR SALE

The shareholders of the below mentioned subsidiaries unanimously decided to liquidate their operations in accordance with the shareholders' resolutions.

<i>Name of subsidiary</i>	<i>Year</i>
Emirates Simulation Academy L.L.C	2011
Q For Commercial Markets Management L.L.C	2009
Q Link Transport	2010
Q Car Park LLC	2009
Q Active for Technologies L.L.C	2011
ABNIA for Industrial Holding L.L.C	2011
Al Qudra Belarus Ltd.	2011
Al Qudra Holding - Yemen	2011
Al Qudra Holding Industrial L.L.C	2011
Q Parks Establishment	2011
Al Qudra Health Care L.L.C	2011
QP International L.L.C	2011

The results of the discontinued operations included in profit or loss are set out below.

Loss from discontinued operations:

	2016 AED'000	2015 AED'000
General and administrative expenses	(11)	(1,263)
Provisions and write offs, net (note 22)	<u>-</u>	<u>(306)</u>
Loss for the year from discontinued operations	<u>(11)</u>	<u>(1,569)</u>
Attributable to:		
Equity holders of the parent company (note 25)	(11)	(1,569)
Non-controlling interests	<u>-</u>	<u>-</u>
	<u>(11)</u>	<u>(1,569)</u>
	2016 AED'000	2015 AED'000

Cash flows from discontinued operations:

Net cash inflows from operating activities	-	259
Net cash outflows used in investing activities	-	(210)
Net cash outflows used in financing activities	<u>-</u>	<u>(451)</u>
Net cash outflows	<u>-</u>	<u>(402)</u>

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13 DISCONTINUED OPERATIONS AND SUBSIDIARIES HELD FOR SALE continued

The major classes of assets and liabilities comprising the operations classified as held for sale at 31 December 2016 are as follows:

	2016 AED'000	2015 AED'000
Statement of assets and liabilities		
Property, plant and equipment	211	644
Inventories (note 21)	-	1,523
Trade and other receivables (note 9)	1,711	10,771
Due from related parties (note 10)	8,448	8,189
Advances and prepayments (note 11)	2,127	2,929
Bank balances and cash (note 12)	<u>1,560</u>	<u>8,405</u>
Assets classified as held for sale	<u>14,057</u>	<u>32,461</u>
Provision for end of service benefit (note 18)	536	897
Trade and other payables (note 19)	46,384	49,996
Due to related parties (note 10)	41,715	51,223
Accrued expenses	<u>4,526</u>	<u>8,748</u>
Total liabilities directly associated with assets classified as held for sale	<u>93,161</u>	<u>110,864</u>
Net assets classified as held for sale	<u>(79,104)</u>	<u>(78,403)</u>

During the current year, the shareholders resolved to reclassify the below mentioned subsidiaries as continuing operations as the criteria mentioned in *International Financial Reporting Standard 5 – Non-current assets held for sale and Discontinued Operations* to classify these subsidiaries as discontinued operations are no longer met.

Name of subsidiary	Percentage of ownership
Q Scape L.L.C	51%
Q Energy L.L.C	60%
Al Qudra Education L.L.C	100%
Al Qudra Holding - Algeria	100%
Al Qudra Holding – International L.L.C	100%

Accordingly, the results of operations of the subsidiaries presented in discontinued operations were reclassified and included in profit from continuing operations for the year ended 31 December 2015.

Impact of reclassification on the consolidated statement of income

	31 December 2015 AED'000
Increase in revenue	6,634
Increase in cost of goods and services	(11,950)
Increase in general and administrative expenses	(6,867)
Decrease in other income, net	(491)
Increase in interest income	1
Increase in finance costs	<u>(183)</u>
Increase in loss from continuing operations	<u>(12,856)</u>
Decrease in loss from discontinued operations	<u>12,856</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 OTHER INCOME

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Rental income from investment properties	3,415	3,000
Income on settlement agreement entered into during the period (i)	120,859	-
Others	<u>11,730</u>	<u>8,259</u>
	<u>136,004</u>	<u>11,259</u>

- (i) During the year, the Group signed a final settlement agreement with respect to a land purchase agreement entered into in 2007. As per the agreement, the amounts payable on the acquisition of the land of AED 161,057 thousand were settled for AED 145,000 thousand. Additionally, penalties which were previously accrued by the Group of AED 104,802 thousand were waived by the seller and accordingly reversed into income.

15 SHARE CAPITAL

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
<i>Authorised, issued and fully paid:</i>		
600,000,000 shares of AED 1 each	<u>600,000</u>	<u>600,000</u>

Dividends amounting to AED 48 million pertaining to 2015 profits were approved by the shareholders in the Annual General Meeting held on 27 April 2016 (2015: AED 42 million).

16 STATUTORY RESERVE

In accordance with the UAE Federal Law number (2) of 2015, concerning Commercial Companies and the Company's Articles of Association, 10% of the net profit is transferred to an undistributable statutory reserve until such reserve equals 50% of paid up capital of the Company. This reserve is not available for distribution.

17 FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 PROVISION FOR END OF SERVICE BENEFITS

The movement in the provision for end of service benefit is as follows:

	2016 AED'000	2015 AED'000
Balance at beginning of the year	6,903	8,229
Charge for the year	2,557	1,151
Payments during the year	<u>(595)</u>	<u>(1,580)</u>
	8,865	7,800
Classified as part of disposal group held for sale (note 13)	<u>(536)</u>	<u>(897)</u>
Balance at end of the year	<u>8,329</u>	<u>6,903</u>

19 TRADE AND OTHER PAYABLES

	2016 AED'000	2015 AED'000
Trade payables	153,941	173,154
Advances from customers	155,850	166,039
Payable for acquisition of land	-	161,057
Provision for infrastructure construction costs	66,967	75,348
Retentions payable	326,451	271,155
Dividends payable	19,136	6,697
Other payables	<u>64,256</u>	<u>84,100</u>
	786,601	937,550
Classified as part of disposal group held for sale (note 13)	<u>(46,384)</u>	<u>(49,996)</u>
	740,217	887,554
Less (non-current portion):		
Retentions payable	(159,559)	(131,416)
Provision for infrastructure construction costs	<u>(66,967)</u>	<u>(75,348)</u>
	(226,526)	(206,764)
	<u>513,691</u>	<u>680,790</u>

In June 2010, Ain Al Fayda Real Estate L.L.C., a subsidiary, was awarded by the Abu Dhabi Urban Planning Council (UPC) the contract for the first phase of its Ain Al Fayda Development with a total contract amount of AED 4.2 billion. An advance payment amounting to AED 428.3 million equivalent to 10% of the total project cost was received in respect of the contract and had been recorded under advances from customers.

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and vary in average terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 INTEREST BEARING LOANS AND BORROWINGS

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Bank overdrafts	59,962	66,624
Term loans	<u>368,264</u>	<u>537,723</u>
	428,226	604,347
Less: bank borrowings (non-current portion)	<u>(196,144)</u>	<u>(182,403)</u>
	<u>232,082</u>	<u>421,944</u>

Bank overdrafts are repayable on demand and bear interest at prevailing inter-bank rates. Term loans consist of the following loans:

- a) Term loan taken from a local bank amounting to AED 1 billion to refinance a short term loan that was obtained for general corporate purposes. This loan is secured by a mortgage on Manarah Bay and Emirates Investment Park properties and an undertaking to deposit the advance payment from UPC to the Company's designated account with the bank and assignment of project payment proceeds in respect of the Ain Al Fayda Project to be routed through the same bank account.

During 2013, the term loan was restructured and based on the restructured loan agreement, the outstanding loan balance was payable in 10 quarterly installments of AED 64 million each with the remaining balance to be paid via a final installment in March 2016. Interest is charged at 3 months EIBOR plus 2.5% (minimum of 5.5%) per annum.

During 2015, the term loan was restructured into three separate bank loans for an amount of AED 502 million for Term loan-I, AED 185 million for Term loan-II and AED 38 million for Term loan-III. As per the restructuring agreement, Term loan-I is to be repaid in monthly installment of 20 million each from collection of EIP land sale proceeds. Term loan-II and Term loan-III were fully repaid during the year ended 31 December 2015 from Ain Al Fayda's project payment proceeds. The amount outstanding as at 31 December 2016 relating to Term loan-I is AED 115.3 million (31 December 2015: AED 342 million).

- b) During 2010, the Company's overdraft facility with a local bank was cancelled and a new loan agreement rescheduling the repayment of outstanding unpaid indebtedness amounting to AED 36.5 million was executed. Based on the loan agreement, the Group is to pay the outstanding loan on quarterly basis with AED 4 million each plus interest commencing September 2010. During 2013, the loan was restructured once again.

Based on the new loan agreement, the outstanding loan is payable in four quarterly installments of AED 375 thousand each, and thereafter AED 1.4 million is payable in 13 quarterly installments with the last installment including the residual balance payable by January 2018. The loan carries interest at the rate of EIBOR (minimum of 3.5%) per annum. The amount outstanding as at 31 December 2016 is AED 14.3 million (31 December 2015: AED 19.4 million). The loan is secured by the assignment of rental proceeds and / or other income from Al Qudra Real Estate L.L.C. in favor of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

20 INTEREST BEARING LOANS AND BORROWINGS continued

- c) Bank loan and overdraft facility taken from a local bank to partly finance development of Danet Holiday Inn Hotel, Abu Dhabi. During 2013, the loan was restructured and a new facility was executed whereby the outstanding loan and overdraft facility balances were consolidated into a single loan. Based on the new loan agreement, the outstanding loan is payable in 58 quarterly installments ending March 2028. The loan carries interest rate of EIBOR (minimum of 6%) per annum. The amount outstanding as at 31 December 2016 is AED 166.4 million (31 December 2015: AED 176.2 million).

The loan is secured by the following:

- First degree mortgage over the hotel building and the plot of land where it is located;
- Negative pledge over property and equipment of the hotel;
- Assignment of full cover insurance in favour of the bank as the first beneficiary over the hotel building; and
- Assignment of hotel operating income in bank's favor.

- d) During 2016, a local bank provided the Group with a term loan amounting to AED 161 million to finance the purchase of land in Reem Island. The loan is secured by a mortgage on Manarah Bay. Based on the loan agreement, the outstanding loan balance is payable in 9 monthly installments with the remaining balance to be paid via a final installment in June 2018. Interest is charged at 3 months EIBOR plus 2.5% (minimum 5.4%) per annum. The amount outstanding as at 31 December 2016 is AED 72.2 million (31 December 2015: nil).

21 INVENTORIES

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Completed properties held for sale (a)	19,000	18,400
Land held for sale (b)	51,000	52,000
Others	<u>1,604</u>	<u>1,674</u>
	71,604	72,074
Classified as part of disposal group held for sale (note 13)	<u>-</u>	<u>(1,523)</u>
	<u>71,604</u>	<u>70,551</u>

- (a) Advance payments amounting to AED 64,709 thousand were previously made to Hydra Properties for construction of certain residential units. Hydra properties was unable to complete the required activities and, as part of a settlement agreement, provided the Group with completed properties from another project of similar value. These properties have been recorded as inventories held for sale and have been measured at lower of cost or net realizable value.

During 2015, the Group had agreed to accept two plots of land from Hydra in exchange of completed properties held sale. The fair value of these plots at 31 December 2016 has been determined to be AED 19 million as per the valuation carried out by British Arabian, which is an independent valuer. The carrying value of completed properties held for sale have been measured at lower of cost or net realizable value in the consolidated financial statements.

- (b) Advance payments amounting to AED 49.9 million were previously made to Al Tamouh Investments LLC ("Tamouh") for reservation of a plot of land in Reem Island. In addition, the Group had outstanding receivables from Tamouh amounting to AED 2.1 million. As part of a settlement agreement, Tamouh provided the Group with a plot of land located in Reem Island of similar value. The plot of land has been recorded as inventory and has been recorded at lower of cost or net realizable value in the consolidated financial statements.

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22 PROVISIONS AND WRITE-OFFS, NET

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Provision for doubtful debts, net of reversals (notes 7, 9 & 10)	1,815	21,068
Write-off and impairment loss on development work in progress (note 8)	763	84,660
Write-off of advances	6,304	-
Provision against inventories (note 21)	1,400	38,323
Provision against default on financial obligations	-	19,595
Impairment loss on capital work in progress (note 3)	35,000	3,877
Others	<u>-</u>	<u>371</u>
	<u>45,282</u>	<u>167,894</u>
Attributable to:		
Continuing operations	45,282	167,588
Discontinued operations	<u>-</u>	<u>306</u>
	<u>45,282</u>	<u>167,894</u>

23 FINANCE COSTS

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Gross interest expense	<u>34,060</u>	<u>55,383</u>

24 PROFIT FOR THE YEAR

Profit for the year is arrived at after charging:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Staff costs	<u>68,416</u>	<u>59,012</u>
Depreciation of property, plant and equipment	<u>10,005</u>	<u>7,499</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 PROFIT PER SHARE

Basic profit per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Diluted profit per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year adjusted for the effects of dilutive instruments.

The calculation of the basic and diluted profit per share is based on the following data:

	2016 AED'000	2015 AED'000
Profit (loss)		
Profit attributable to equity holders of the parent company (AED'000)	263,529	206,318
Loss from discontinued operations used in the calculation of the basic and diluted loss per share from discontinued operations (AED'000)	<u>(11)</u>	<u>(1,569)</u>
Profit used in the calculation of basic and diluted profit per share from continuing operations (AED'000)	<u>263,540</u>	<u>207,887</u>
Number of shares		
Weighted average number of shares in issue for the purpose of basic and diluted earnings per share ('000)	<u>600,000</u>	<u>600,000</u>
Basic and diluted profit (loss) per share (AED)		
From continuing operations	0.439	0.346
From discontinued operations	<u>0.000</u>	<u>(0.003)</u>
Total basic and diluted profit per share	<u>0.439</u>	<u>0.343</u>

26 COMMITMENTS AND CONTINGENT LIABILITIES

	2016 AED'000	2015 AED'000
Capital expenditure contracted but not yet incurred is as follows:		
Within one year	<u>228,229</u>	<u>1,048,684</u>
During second to fifth year	<u>-</u>	<u>348,248</u>
Letters of guarantee	<u>102,397</u>	<u>115,424</u>

Letters of guarantee are issued in the normal course of business.

Litigation

The Group is a defendant in a legal case involving a claim in relation to alleged failure of the Group to commit to certain obligations for the purchase of properties. Several procedural hearings have taken place and the court has referred the case to the Experts Office to ascertain certain matters relating to the dispute. The amount claimed by the plaintiff is approximately AED 522.4 million (2015: AED 522.4 million). Management believes, based on legal advice, that the likelihood of the unfavorable outcome (whether probable or remote) or a reliable estimate of the amount or range of potential loss if outcome was unfavorable cannot be determined at this stage. Furthermore, management considers that should the court rule in favor of the plaintiff, the properties related to the dispute will be transferred to the Group on settlement. Accordingly, no additional provisions are required as at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

27 FINANCIAL INSTRUMENTS**27.1 Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20 and equity attributable to equity holders of the parent company, comprising issued share capital, reserves and retained earnings (accumulated losses) as disclosed in the consolidated statement of changes in equity.

During the year, the Group's strategy was to monitor capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total equity, as shown in the consolidated statement of financial position. The Group's overall strategy remains unchanged from the prior year.

The gearing ratio at the end of the reporting period was as follows:

	2016 AED'000	2015 AED'000
Debt (i)	<u>428,226</u>	<u>604,347</u>
Total equity (ii)	<u>1,220,896</u>	<u>998,285</u>
Gearing ratio (%)	<u>35%</u>	<u>60%</u>

(i) Debt is defined as short term and long term bank borrowings as detailed in Note 20.

(ii) Equity includes all capital and reserves of the Group.

27.2 Financial risk management objectives

The Group's Corporate Finance and Treasury function provides services to the business and monitors and manages the financial risks relating to the operations of the Group by analysing exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The Group does not use any derivative financial instruments to hedge these risk exposures. Management has not implemented formal risk management policies and procedures to manage these risks, however, management reviews the exposure limits on a continuous basis.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

27.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates (see note 27.6) and equity prices (see note 27.4).

During the year, there has been no change to the Group's manner in which it manages and measures the risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL INSTRUMENTS continued

27.4 Equity price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade in these equity investments. The Group monitors the risk of change in equity prices by sensitivity analysis taking 5% change due to the volatile nature of the market in which the securities are listed.

Equity price sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower, the Group's equity would increase/decrease by AED 29 million (2015: AED 33 million) as a result of the Group's portfolio classified as financial investment carried at fair value. The corresponding value of investments would increase/decrease by similar amounts.

27.5 Foreign currency risk

Management considers that the Group is not exposed to significant currency risk. The majority of its transactions and balances are in either UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

27.6 Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest-bearing financial instruments at the end of the reporting period. For variable rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would decrease/increase by AED 2.14 million (2015: profit would decrease / increase by AED 3.02 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate borrowings.

27.7 Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Trade receivables consist of local customers and related parties with good credit standing. Trade receivables are reviewed on an ongoing basis and provision is made for doubtful debts as and when required.

The Group's credit risk exposure to single counterparties or group of counterparties having similar characteristics is detailed below. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are reputable local banks closely monitored by the regulatory body. The carrying amount reflected in these consolidated financial statements represents the Group's maximum exposure to credit risk for such loans and receivables.

At 31 December 2016, 65% (2015: 78%) of the bank balances and cash were deposited with 3 local banks (2015: three local bank). Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the Central Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL INSTRUMENTS continued**27.7 Credit risk continued**

Included in the trade accounts receivable and amounts due from related parties are debtors with a carrying amount of AED 131 million (2015: AED 141 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of gross trade accounts receivable and due from related parties is as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Not past due	297,839	344,624
Due for 61 to 90 days	9,846	4,000
Due for 91 to 180 days	17,720	8,416
Due for more than 181 days	<u>165,690</u>	<u>192,715</u>
	<u>491,095</u>	<u>549,755</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

27.8 Liquidity risk

The responsibility for liquidity risk management rests with the management of the Group. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities:

	<i>Within 1 year AED '000</i>	<i>1 to 5 years AED '000</i>	<i>After 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2016:				
Non-interest bearing instruments	513,691	159,559	-	673,250
Fixed interest rate instruments	6,104	8,760	-	14,864
Variable interest rate instruments	<u>242,355</u>	<u>237,167</u>	<u>-</u>	<u>479,522</u>
Total	<u>762,150</u>	<u>405,486</u>	<u>-</u>	<u>1,167,636</u>
31 December 2015:				
Non-interest bearing instruments	711,998	131,416	-	843,414
Fixed interest rate instruments	5,600	13,714	-	19,314
Variable interest rate instruments	<u>482,319</u>	<u>102,714</u>	<u>-</u>	<u>585,033</u>
Total	<u>1,199,917</u>	<u>247,844</u>	<u>-</u>	<u>1,447,761</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL INSTRUMENTS continued**27.9 Fair value of financial instruments**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of financial assets at fair value through other comprehensive income, trade receivables, due from related parties, bank balances and cash and some other current assets. Financial liabilities consist of trade and other payables, loans and borrowings, and due to related parties.

Management considers that the carrying values of financial assets and financial liabilities in the financial statements approximate their fair values.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2016				
Financial assets at fair value through other comprehensive income				
Quoted equities	10,905	-	-	10,905
Unquoted equities	-	496,432	68,597	565,029
Total	10,905	496,432	68,597	575,934
2015				
Financial assets at fair value through other comprehensive income				
Quoted equities	23,156	-	-	23,156
Unquoted equities	-	571,515	65,482	636,997
Total	23,156	571,515	65,482	660,153

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL INSTRUMENTS continued

27.9 Fair value of financial instruments continued

Reconciliation of fair value measurements of Level 3 financial instruments

The Group carries unquoted equity shares as financial assets at fair value through other comprehensive income classified as Level 3 within the fair value hierarchy.

A reconciliation of the beginning and closing balances including movements is summarized below:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
1 January	65,482	111,897
Additions during the year	8,269	-
Reclassified to Level 1	(3,143)	-
Transfer upon disposal of associate (note 5)	-	9,692
Disposals	-	(72,351)
Unrealized (loss) gain recognized in other comprehensive income	<u>(2,011)</u>	<u>16,244</u>
	<u>68,597</u>	<u>65,482</u>