

**Sharjah Group Company P.S.C.  
and its subsidiary**

Consolidated Financial Statements  
For the year ended December 31, 2017

**Sharjah Group Company P.S.C. and its subsidiary**  
**Consolidated Financial Statements**  
**For the year ended December 31, 2017**

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## **Board of Directors Report**

Dear, Sharjah Group Company Shareholders

We are pleased to present the Board of Directors Report and Financial Statements for the fiscal financial year ended 31/12/2017 for Sharjah Group Company.

The company continues with a consistent in operating revenue for the year ended December 31, 2017 amounting to AED 16,166,864 (2016: AED 16,053,252).

Rental Income increased 3.7% due to the stability of demand and the value of rents in the Emirates of Sharjah during 2017, reaching an amount of AED 15,545,570 (2016: AED 14,990,985).

Net profit for 2017 was AED 19,158,588 with profitability of 24 fils per share, compared to AED 19,660,994 with profitability of 25 fils per share in 2016.

The value of the company's assets has also increased by 5% and there has been relative stability in the average return of operational earnings on total assets to 5.8% (2016: 6%). This has also seen in the ROA to 7% (2016: 7.4%).

Total Equity has reached AED 184,043,277 for the year 2017 (2016: AED 171,179,023), representing a growth rate of 7.5%.

Best Regards,

Board of Directors

## **Independent Auditor's Report To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the accompanying consolidated financial statements of Sharjah Group Company P.S.C. (the “Company”) and its subsidiary collectively referred to as (the “Group”), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independent Auditor's Report****To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)****Report on the Audit of the Consolidated Financial Statements (continued)****Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

**i) Valuation of investment properties**

The Group has investment properties as at December 31, 2017 of AED 247.12 million (2016: AED 235.76 million) as disclosed in Note 6 to the consolidated financial statements. The investment properties of the Group represent 88.9% of the total assets as at December 31, 2017 and are carried at fair value (2016: 89%). The management of the Group determines the fair value of its investment properties at each reporting date and uses an external appraiser to support the valuation at year end. Valuation of the investment properties is dependent on estimates and assumptions including rental value, occupancy rates, discount rates, financial stability of tenants, market knowledge and historical transactions.

We have performed the following audit procedures:

- We have discussed with the independent valuer to understand the basis of valuation for each investment property and other judgements used in performing the valuation;
- We have assessed and challenged the appropriateness of the underlying leasing data and current tenancy agreements, estimated rental values and assumptions used as disclosed in Note 24 to the consolidated financial statements;
- We have involved our own valuation specialist to validate the assumptions used by management; and
- We have assessed whether the Group's disclosures in relation to the valuation of the investment properties are compliant with the relevant accounting requirements.

Based on the work performed, we considered the assumptions used by management and related disclosures in the consolidated financial statements to be appropriate.

## **Independent Auditor's Report** **To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)**

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

#### **Key Audit Matters (continued)**

##### **ii) Valuation of investment in unquoted securities**

The Group holds investments in unquoted equity securities of five entities as at December 31, 2017 (2016: seven entities) amounting to AED 2.33 million representing 10.92% of the total amount of its investment in securities as disclosed in Note 8 and 9 to the consolidated financial statements (2016: AED 3.54 million representing 14.7%). The valuation of these unquoted equity securities was carried out by an independent valuer and involves judgement in selecting the valuation basis for each investment and further judgement in performing the valuation when the latest market and financial data is not observable.

We have performed the following audit procedures:

- We have discussed with the independent valuer to understand the basis of valuation for each investment and other judgements used in performing the valuation;
- We have assessed and challenged the appropriateness of the underlying data, pricing methodologies and assumptions used as disclosed in Note 23 to the consolidated financial statements;
- We have involved our own valuation specialist to validate the assumptions used by management; and
- We have assessed whether the Group's disclosures in relation to the valuation of the unquoted equity securities are compliant with the relevant accounting requirements.

Based on the work performed, we considered the assumptions used by management and related disclosures in the consolidated financial statements to be appropriate.

##### **iii) Revenue recognition**

The Group has recognised rental revenue of AED 15.54 million during the year ended December 31, 2017 (2016: AED 14.99 million). Market expectation and a profit based target may place pressure on management to overstate revenue. This may result in the manipulation of accrued/deferred revenue and/or the creation of fictitious customers to assist in meeting current or future targets and expectations.

We have performed the following audit procedures:

- We have assessed whether the revenue recognition policies adopted comply with IFRS;
- We have performed detailed analytical procedures by developing an independent expectation of revenue based on the lease agreements for the year ended December 31, 2017 to assess whether revenue recognised was complete;
- We have agreed a sample of lease agreements to the related revenue recognised in the books to assess whether revenue had been recognised in the appropriate accounting period;
- We have performed audit procedures specifically designed to address the risk of management override of controls including journal entry testing and evaluating whether there was evidence of bias by the Directors that represents a risk of material misstatement due to fraud; and
- We have obtained the tenant listing, scanned sample contract folders of sample tenants to determine their existence and checked for duplicate customers.

Based on the work performed, we consider revenue recognition to be appropriate and we did not identify any material misstatements.

## **Independent Auditor's Report**

**To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)**

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

#### **Key Audit Matters (continued)**

##### **iv) Provision for claims and settlement**

The Group has a balance as at December 31, 2017 for provision for claims and settlement amounting to AED 59.05 million (2016: 57.57 million) as disclosed in Note 18 to the consolidated financial statements. The provision is relation to a legal case filed against the Group in December 1999. The final verdict on this case dated November 2010 required the Group to pay an amount of USD 5.7 million or its equivalent in Kuwaiti Dinars using the exchange rate announced by the Central Bank of Kuwait in December 1999 and interest of 7% of the claimed amount for the period starting June 22, 1992 to the date of settlement. On September 22, 2016, the Group received a court order to pay the principle amount in addition to the interest of the claim. However, the Group has appealed against the court order. On April 9, 2017, the case was posed before the court of First Instance until further notice due to some file examination. The estimation of the provision requires further judgements to be used.

We have performed the following audit procedures:

- We have assessed and challenged the appropriateness of calculating the provision as at December 31, 2017;
- We have met with the legal advisor of the Group and discussed the status of the legal case; and
- We have assessed whether the Group's disclosures in relation to the provision for claims and settlement are compliant with the relevant accounting requirements.

Based on the work performed, we considered the provision for claims and settlement to be appropriate and we did not identify any material misstatements.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the *Directors' Report*, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

**Independent Auditor's Report****To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)****Report on the Audit of the Consolidated Financial Statements (continued)****Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's 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 ISA, 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.

## **Independent Auditor's Report**

**To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)**

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

- 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 entity within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

#### **Report on Other Legal and Regulatory Requirements**

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' Report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) the Group has not purchased any shares during the year ended December 31, 2017 (2016: The Group purchased certain shares as disclosed in Note 9 to the consolidated financial statements);
- vi) Note 11 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

**Independent Auditor's Report****To the Shareholders of Sharjah Group Company P.S.C. and its subsidiary (continued)****Report on Other Legal and Regulatory Requirements (continued)**

- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended December 31, 2017 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at December 31, 2017; and
- viii) during the year ended December 31, 2017 the Group made social contributions amounting to AED 60,000.

**GRANT THORNTON**

**Osama El Bakry**  
**Registration No. 935**  
**Sharjah, United Arab Emirates**

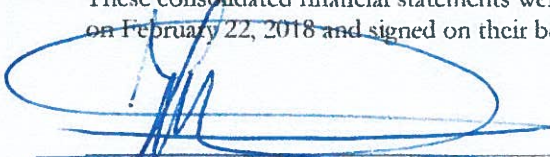
**February 22, 2018**

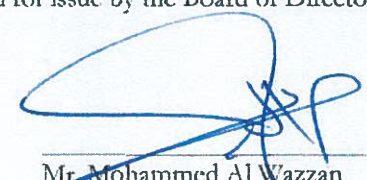
**Sharjah Group Company P.S.C. and its subsidiary**  
**Consolidated Financial Statements**

**Consolidated statement of financial position**  
**As at December 31, 2017**

|                                                              | Notes | 2017<br>AED        | 2016<br>AED        |
|--------------------------------------------------------------|-------|--------------------|--------------------|
| <b>ASSETS</b>                                                |       |                    |                    |
| <b>Non-current assets</b>                                    |       |                    |                    |
| Property and equipment                                       | 5     | 225,791            | 129,075            |
| Investment properties                                        | 6     | 247,122,700        | 235,755,320        |
| Investments at fair value through other comprehensive income | 8     | 19,443,092         | 21,833,301         |
|                                                              |       | <u>266,791,583</u> | <u>257,717,696</u> |
| <b>Current assets</b>                                        |       |                    |                    |
| Investments at fair value through profit or loss             | 9     | 2,534,486          | 2,267,872          |
| Trade and other receivables                                  | 10    | 1,294,105          | 754,281            |
| Cash and bank balances                                       | 12    | 7,261,895          | 3,626,148          |
|                                                              |       | <u>11,090,486</u>  | <u>6,648,301</u>   |
| <b>TOTAL ASSETS</b>                                          |       | <u>277,882,069</u> | <u>264,365,997</u> |
| <b>EQUITY AND LIABILITIES</b>                                |       |                    |                    |
| <b>Equity</b>                                                |       |                    |                    |
| Share capital                                                | 13    | 78,901,086         | 78,901,086         |
| Statutory reserve                                            | 14    | 31,774,685         | 29,777,838         |
| Voluntary reserve                                            | 15    | 12,093,743         | 10,096,897         |
| Fair value reserve                                           |       | 1,362,515          | 3,926,407          |
| Foreign currency translation reserve                         |       | (466,213)          | (731,814)          |
| Retained earnings                                            |       | 60,377,461         | 49,208,609         |
| <b>Total equity</b>                                          |       | <u>184,043,277</u> | <u>171,179,023</u> |
| <b>Non-current liabilities</b>                               |       |                    |                    |
| Employees' end of service benefits                           | 17    | 938,320            | 784,784            |
| <b>Current liabilities</b>                                   |       |                    |                    |
| Trade and other payables                                     | 18    | 62,963,782         | 62,032,117         |
| Dividends payable                                            |       | 29,936,690         | 30,370,073         |
|                                                              |       | <u>92,900,472</u>  | <u>92,402,190</u>  |
| <b>Total liabilities</b>                                     |       | <u>93,838,792</u>  | <u>93,186,974</u>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                          |       | <u>277,882,069</u> | <u>264,365,997</u> |

These consolidated financial statements were approved and authorised for issue by the Board of Directors on February 22, 2018 and signed on their behalf by:

  
Mr. Ziyad Mahmoud Khairullah Al Haji  
Chairman

  
Mr. Mohammed Al Wazzan  
Managing Director

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

**Sharjah Group Company P.S.C. and its subsidiary**  
**Consolidated Financial Statements**

**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended December 31, 2017**

|                                                                                                   | Notes | 2017<br>AED        | 2016<br>AED       |
|---------------------------------------------------------------------------------------------------|-------|--------------------|-------------------|
| Rental income                                                                                     |       | 15,545,570         | 14,990,985        |
| Dividend income                                                                                   |       | 412,492            | 190,538           |
| Unrealised gain /( loss) on investments at fair value through profit or loss                      | 9     | 242,721            | (158,099)         |
| Impairment loss                                                                                   |       | -                  | (115,789)         |
| Unrealised gain from revaluation of investment properties at fair value                           | 6     | 11,108,830         | 11,315,700        |
| Administrative and general expenses                                                               | 19    | (5,529,465)        | (4,913,108)       |
| Repairs and maintenance expenses                                                                  |       | (1,346,058)        | (1,036,658)       |
| Provision for claims and settlement                                                               |       | (1,484,304)        | (1,484,304)       |
| Other income                                                                                      | 20    | 208,802            | 871,729           |
| <b>PROFIT FOR THE YEAR</b>                                                                        |       | <b>19,158,588</b>  | <b>19,660,994</b> |
| <b>Other comprehensive income</b>                                                                 |       |                    |                   |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i> |       |                    |                   |
| Changes in fair value of investments at fair value through other comprehensive income             | 8     | (2,585,594)        | 3,701,968         |
| Realised gain on sale fair value of investments at fair value through comprehensive income        | 8     | 21,702             | -                 |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>     |       |                    |                   |
| Foreign currency translation reserve                                                              |       | 265,601            | (98,185)          |
| <b>Other comprehensive income</b>                                                                 |       | <b>(2,298,291)</b> | <b>3,603,783</b>  |
| <b>TOTAL COMPERHENSIVE INCOME FOR THE YEAR</b>                                                    |       | <b>16,860,297</b>  | <b>23,264,777</b> |
| <b>Basic and diluted earnings per share</b>                                                       | 16    | <b>0.24</b>        | <b>0.25</b>       |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

**Sharjah Group Company P.S.C. and its subsidiary  
Consolidated Financial Statements**

**Consolidated statement of changes in equity  
For the year ended December 31, 2017**

|                                         | Share<br>capital<br>AED | Statutory<br>reserve<br>AED | Voluntary<br>reserve<br>AED | Fair value<br>reserve<br>AED | Foreign<br>currency<br>translation<br>reserve<br>AED | Retained<br>earnings<br>AED | Total<br>AED       |
|-----------------------------------------|-------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------------------------------|-----------------------------|--------------------|
| As at January 1, 2017                   | 78,901,086              | 29,777,838                  | 10,096,897                  | 3,926,407                    | (731,814)                                            | 49,208,609                  | 171,179,023        |
| Profit for the year                     | -                       | -                           | -                           | -                            | -                                                    | 19,158,588                  | 19,158,588         |
| Other comprehensive income              | -                       | -                           | -                           | (2,563,892)                  | 265,601                                              | -                           | (2,298,291)        |
| Total comprehensive income for the year | -                       | -                           | -                           | (2,563,892)                  | 265,601                                              | 19,158,588                  | 16,860,297         |
| Dividend declared (Note 13)             | -                       | -                           | -                           | -                            | -                                                    | (3,156,043)                 | (3,156,043)        |
| Board remuneration (Note 11)            | -                       | -                           | -                           | -                            | -                                                    | (840,000)                   | (840,000)          |
| Transfer to reserves                    | -                       | 1,996,847                   | 1,996,846                   | -                            | -                                                    | (3,993,693)                 | -                  |
| <b>As at December 31, 2017</b>          | <b>78,901,086</b>       | <b>31,774,685</b>           | <b>12,093,743</b>           | <b>1,362,515</b>             | <b>(466,213)</b>                                     | <b>60,377,461</b>           | <b>184,043,277</b> |

|                                         | Share<br>capital<br>AED | Statutory<br>reserve<br>AED | Voluntary<br>reserve<br>AED | Fair value<br>reserve<br>AED | Foreign<br>currency<br>translation<br>reserve<br>AED | Retained<br>earnings<br>AED | Total<br>AED       |
|-----------------------------------------|-------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------------------------------|-----------------------------|--------------------|
| As at January 1, 2016                   | 78,901,086              | 27,499,924                  | 7,818,983                   | 224,439                      | (633,629)                                            | 44,061,558                  | 157,872,361        |
| Profit for the year                     | -                       | -                           | -                           | -                            | -                                                    | 19,660,994                  | 19,660,994         |
| Other comprehensive income              | -                       | -                           | -                           | 3,701,968                    | (98,185)                                             | -                           | 3,603,783          |
| Total comprehensive income for the year | -                       | -                           | -                           | 3,701,968                    | (98,185)                                             | 19,660,994                  | 23,264,777         |
| Dividend declared (Note 13)             | -                       | -                           | -                           | -                            | -                                                    | (9,468,115)                 | (9,468,115)        |
| Board remuneration (Note 11)            | -                       | -                           | -                           | -                            | -                                                    | (490,000)                   | (490,000)          |
| Transfer to reserves                    | -                       | 2,277,914                   | 2,277,914                   | -                            | -                                                    | (4,555,828)                 | -                  |
| <b>As at December 31, 2016</b>          | <b>78,901,086</b>       | <b>29,777,838</b>           | <b>10,096,897</b>           | <b>3,926,407</b>             | <b>(731,814)</b>                                     | <b>49,208,609</b>           | <b>171,179,023</b> |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

**Sharjah Group Company P.S.C. and its subsidiary**  
**Consolidated Financial Statements**

**Consolidated statement of cash flows**  
**For the year ended December 31, 2017**

|                                                                           | Notes | 2017<br>AED        | 2016<br>AED         |
|---------------------------------------------------------------------------|-------|--------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                                               |       |                    |                     |
| Profit for the year                                                       |       | 19,158,588         | 19,660,994          |
| <i>Adjustments to reconcile profit to net cash flows:</i>                 |       |                    |                     |
| Unrealised gain from revaluation of investment properties at fair value   | 6     | (11,108,830)       | (11,315,700)        |
| Provision for claims and settlement                                       |       | 1,484,304          | 1,484,304           |
| Unrealised (gain)/loss on investment at fair value through profit or loss | 9     | (242,721)          | 158,099             |
| Provision for employees' end of service benefits                          | 17    | 153,536            | 138,268             |
| Depreciation on property and equipment                                    | 5     | 115,379            | 195,112             |
| Gain on sale of properties and equipment                                  | 20    | (6,500)            | -                   |
| Provision for doubtful accounts                                           | 10    | -                  | 204,891             |
|                                                                           |       | <u>9,553,756</u>   | <u>10,641,757</u>   |
| <i>Changes in working capital:</i>                                        |       |                    |                     |
| Trade and other receivables                                               |       | (539,824)          | (140,319)           |
| Trade and other payables                                                  |       | (552,639)          | 749,755             |
| Cash from operations                                                      |       | <u>8,461,293</u>   | <u>11,251,193</u>   |
| Employees' end of service benefits paid                                   | 17    | -                  | (6,467)             |
| <b>Net cash flow from operating activities</b>                            |       | <u>8,461,293</u>   | <u>11,244,726</u>   |
| <b>INVESTING ACTIVITIES</b>                                               |       |                    |                     |
| Addition of investment properties                                         | 6     | (258,550)          | (7,691,897)         |
| Purchase of property and equipment                                        | 5     | (212,095)          | (24,140)            |
| Proceeds from investment at fair value through other comprehensive income |       | 63,548             | -                   |
| Proceeds from sale of property and equipment                              | 20    | 6,500              | -                   |
| Purchase of investments at fair value through profit or loss              | 9     | -                  | (173,717)           |
| <b>Net cash flow used in investing activities</b>                         |       | <u>(400,597)</u>   | <u>(7,889,754)</u>  |
| <b>FINANCING ACTIVITIES</b>                                               |       |                    |                     |
| Dividends paid                                                            |       | (3,589,426)        | (12,136,617)        |
| Board remuneration paid                                                   | 11    | (840,000)          | (490,000)           |
| <b>Net cash flow used in financing activities</b>                         |       | <u>(4,429,426)</u> | <u>(12,626,617)</u> |
| <b>Net change in cash and cash equivalents</b>                            |       | <b>3,631,270</b>   | <b>(9,271,645)</b>  |
| Exchange differences on translating foreign operations                    |       | 4,477              | (2,715)             |
| Cash and cash equivalents at the beginning of year                        |       | <u>3,626,148</u>   | <u>12,900,508</u>   |
| <b>Cash and cash equivalents at the end of year</b>                       | 12    | <u>7,261,895</u>   | <u>3,626,148</u>    |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

# Sharjah Group Company P.S.C. and its subsidiary

## Consolidated Financial Statements

### Notes to the consolidated financial statements

#### For the year ended December 31, 2017

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#### 1 Legal status and principle activities

Sharjah Group Company P.S.C. (the "Company") is a public share holding company, registered in the Emirate of Sharjah, United Arab Emirates under Emiri Decree number 133/76 dated November 16, 1976. The registered office of the Company is P O. Box 5440, Sharjah, United Arab Emirates. The shares of the Company are traded on the Abu Dhabi Securities Market.

The Company holds the following investment as at December 31, 2017 which has been consolidated in these consolidated financial statements:

| Name of subsidiary                                                                   | Ownership interest |      | Country of operation and incorporation | Principal activity                                                                                |
|--------------------------------------------------------------------------------------|--------------------|------|----------------------------------------|---------------------------------------------------------------------------------------------------|
|                                                                                      | 2017               | 2016 |                                        |                                                                                                   |
| Tarfan General Trading and Contracting (Ebrahim Ahmed Al-Mannaei and Partners) W.L.L | 100%               | 100% | State of Kuwait                        | General trading and contracting – purchase and sale of shares and bonds for the Subsidiary's sake |

The Subsidiary is a limited liability company incorporated in the State of Kuwait. Two individuals own 2% of the Subsidiary's share capital as beneficiaries for and on behalf of the Company; therefore no non-controlling interest has been disclosed.

The principal activities of the Company and its Subsidiary (the "Group") comprise investing in financial instruments, real estate, industrial projects and leasing of rental properties.

#### 2 Basis of preparation

##### Statement of compliance

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

The Group has early adopted IFRS 9 Financial Instruments (October 2010) with a date of initial application of January 1, 2013.

##### Financial Accounting Concept

These consolidated financial statements have been prepared on a going concern basis notwithstanding the fact that Group's current liabilities exceeded the current assets as at December 31, 2017 by AED 81,809,986 (2016: AED 85,753,889).

The Group's management has prepared its business and cash flow forecasts for the twelve months period after the reporting date on a conservative basis and is of the opinion that the Group will be able to continue its operations in the future and accordingly, the going concern assumption used in the preparation of these consolidated financial statements is appropriate.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**2 Basis of preparation (continued)**

**Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis except for the followings which are stated at fair value:

1. Investment properties;
2. Financial instruments at fair value through other comprehensive income; and
3. Financial instruments at fair value through profit or loss.

**Basis for consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 31, 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

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

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. The contractual arrangement with the other vote holders of the investee;
- b. Rights arising from other contractual arrangements; and
- c. The Company's voting rights and potential voting rights.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiary are prepared for the same reporting year as of the Parent Company.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**2 Basis of preparation (continued)**

**Functional and presentation currency**

These consolidated financial statements are presented in Arab Emirates Dirhams ("AED"), which is also the functional currency of the Company. The Subsidiary determines the Kuwaiti Dinar ("KD") as its own functional currency and items included in its financial statements are measured using the KD.

As at the reporting date, the assets and liabilities of the Subsidiary with KD are translated into AED at the rate of exchange ruling at the reporting date and statement of profit and loss is translated at the weighted average exchange rates for the year. Foreign exchange differences arising from monetary items that in substance form part of the net investment in Subsidiary's operations are recognised directly in equity as part of foreign currency reserve.

The differences arising on disposal of Subsidiary, the deferred cumulative amount recognised in equity relating to this Subsidiary is recognised in statement of profit and loss.

**Use of estimates and judgments**

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in Note 24.

The following accounting policies, which comply with IFRS, have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group.

**3 Standards, interpretations and amendments to existing standards**

**3.1 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group. Those which are relevant to the Group are set out below and the Group does not plan to adopt these early.

| Standard number | Title                                 | Effective date  |
|-----------------|---------------------------------------|-----------------|
| IFRS 15         | Revenue from Contracts with Customers | January 1, 2018 |
| IFRS 16         | Leases                                | January 1, 2019 |

Notes to the consolidated financial statements (continued)  
For the year ended December 31, 2017

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**3 Standards, interpretations and amendments to existing standards (continued)**

**3.1 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group (continued)**

**IFRS 15 Revenue from Contracts with Customers (effective for accounting period beginning on or after January 1, 2018)**

IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC 31 *Revenue-Barter Transactions Involving Advertising Services*.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is also provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

**IFRS 16 Leases (effective for accounting period beginning on or after January 1, 2019)**

IFRS 16 was issued in January 2017 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Notes to the consolidated financial statements (continued)  
For the year ended December 31, 2017

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**3 Standards, interpretations and amendments to existing standards (continued)**

**3.1 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group (continued)**

**IFRS 16 Leases (effective for accounting period beginning on or after January 1, 2019) (continued)**

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

**4 Summary of significant accounting policies**

**Foreign currency transactions**

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

Exchange differences are recognised in profit or loss in the period in which they arise.

**Financial instruments**

**i. Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described in the next page.

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**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**4 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

**ii. Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- Cash and cash equivalent;
- Financial asset at fair value through other comprehensive income; and
- Financial asset at fair value through profit or loss.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income, except for impairment of trade receivables which is presented within administrative and general expenses.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described in the below.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

These are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables comprise trade and most other receivables.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

**Cash and cash equivalents**

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and current account balances with banks and are initially and subsequently recorded at fair value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances.

Notes to the consolidated financial statements (continued)  
For the year ended December 31, 2017

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**4 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

**ii. Classification and subsequent measurement of financial assets (continued)**

**Investment at fair value through other comprehensive income**

Investment at fair value through other comprehensive income are investment in equity instruments that meet the definition of “equity” from the perspective of the issuer as defined in IAS 32. These equity instruments are not held for trading.

All fair value changes for investment at fair value through other comprehensive income, excluding dividends that are a return on investment, will be included in other comprehensive income. There is no recycling of amounts from other comprehensive income to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. These are measured at fair value with gains or losses recognised in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as investment at fair value through other comprehensive income and all derivative financial instruments.

**iii. Impairment and uncollectibility of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit and loss. Impairment is determined as explained below:

- a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- b) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in profit and loss.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**4 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

**iv. Classification and subsequent measurement of financial liabilities**

Financial liabilities comprise most trade and other payables and dividends payable.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

**v. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**vi. Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

**Property and equipment**

Property and equipment are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

These assets are subsequently measured using the cost model, cost less subsequent depreciation and impairment loss, if any.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of the property and equipment. The following useful lives are applicable:

|                                          |     |
|------------------------------------------|-----|
| Other facilities                         | 3   |
| Furniture, fixtures and office equipment | 3-5 |
| Motor vehicles                           | 4   |

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**4 Summary of significant accounting policies (continued)**

**Property and equipment (continued)**

Material residual value and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised in the profit or loss.

**Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit and loss in the year in which they arise. The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques.

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. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit and loss in the year of retirement or disposal.

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

**Properties under construction**

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under construction 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 values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**4 Summary of significant accounting policies (continued)**

**Impairment of non-financial assets**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

**Staff terminal benefits**

The provision for staff terminal benefits is calculated in accordance with the UAE Federal Labour Law and is based on the liability that would arise if the employment of all staff were terminated at the financial position date.

**Provisions**

A provision is recognised if, as a result of a past event, the Group has a present (legal or constructive) obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Determination of fair values**

Certain of the Group's accounting policies and disclosures require the determination of fair value, for non-financial assets. Fair values have been determined for measurement and/or disclosure purposes based on the methods adopted by the Group. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset.

**Revenue recognition**

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities have been met. These activity-specific recognition criteria are described below.

*Rent income*

Rental income from investment property represent the amounts charged to tenants against the rental of the Group's investment property and are recognised in the profit or loss on a straight-line basis over the term of the lease.

*Dividend income*

Dividend income is recognised in the profit or loss on the date that the Group's right to receive payment is established.

*Income from sale of investments*

Revenue from sale of investments is recognised on the date when all significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the asset.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

**4 Summary of significant accounting policies (continued)**

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if the right is not explicitly specified in an arrangement. All 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***

Operating leases relate to the Subsidiary's office, lease payments are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into operating lease are also spread on a straight-line basis over the lease term.

**5 Property and equipment**

|                                                     | Other<br>facilities<br>AED | Furniture,<br>fixtures and<br>office<br>equipment<br>AED | Motor<br>vehicles<br>AED | Total<br>AED |
|-----------------------------------------------------|----------------------------|----------------------------------------------------------|--------------------------|--------------|
| <b>Cost</b>                                         |                            |                                                          |                          |              |
| As at January 1, 2017                               | 294,267                    | 983,330                                                  | 108,500                  | 1,386,097    |
| Additions                                           | -                          | 65,135                                                   | 146,960                  | 212,095      |
| Disposals                                           | -                          | -                                                        | (51,000)                 | (51,000)     |
| As at December 31, 2017                             | 294,267                    | 1,048,465                                                | 204,460                  | 1,547,192    |
| <b>Accumulated depreciation</b>                     |                            |                                                          |                          |              |
| As at January 1, 2017                               | 228,325                    | 920,197                                                  | 108,500                  | 1,257,022    |
| Charge for the year                                 | 65,942                     | 36,046                                                   | 13,391                   | 115,379      |
| Disposals                                           | -                          | -                                                        | (51,000)                 | (51,000)     |
| As at December 31, 2017                             | 294,267                    | 956,243                                                  | 70,891                   | 1,321,401    |
| <b>Net carrying amount at<br/>December 31, 2017</b> | -                          | 92,222                                                   | 133,569                  | 225,791      |

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

**5 Property and equipment (continued)**

|                                             | Other<br>facilities<br>AED | Furniture,<br>fixtures and<br>office<br>equipment<br>AED | Motor<br>vehicles<br>AED | Total<br>AED |
|---------------------------------------------|----------------------------|----------------------------------------------------------|--------------------------|--------------|
| Cost                                        |                            |                                                          |                          |              |
| As at January 1, 2016                       | 294,267                    | 959,190                                                  | 108,500                  | 1,361,957    |
| Additions                                   | -                          | 24,140                                                   | -                        | 24,140       |
| As at December 31, 2016                     | 294,267                    | 983,330                                                  | 108,500                  | 1,386,097    |
| Accumulated depreciation                    |                            |                                                          |                          |              |
| As at January 1, 2016                       | 130,235                    | 823,175                                                  | 108,500                  | 1,061,910    |
| Charge for the year                         | 98,090                     | 97,022                                                   | -                        | 195,112      |
| As at December 31, 2016                     | 228,325                    | 920,197                                                  | 108,500                  | 1,257,022    |
| Net carrying amount at<br>December 31, 2016 | 65,942                     | 63,133                                                   | -                        | 129,075      |

**6 Investment properties**

|                                                                          | 2017<br>AED        | 2016<br>AED        |
|--------------------------------------------------------------------------|--------------------|--------------------|
| As at January 1,                                                         | 235,755,320        | 216,747,723        |
| Additions during the year                                                | 258,550            | 7,691,897          |
| Unrealised gain on revaluation of investment<br>properties at fair value | 11,108,830         | 11,315,700         |
| <b>As at December 31,</b>                                                | <b>247,122,700</b> | <b>235,755,320</b> |

Investment properties consist of residential and commercial buildings and warehouses. It also includes undeveloped two parcels of land.

**Fair value**

Investment properties are stated at market value based on a valuation carried out by an independent external valuer as at December 31, 2017 and 2016.

The investment properties are valued using the direct capitalization method which is used to convert the estimate of a single year's income expectancy into an indication of value. Direct capitalization is market orientated and infers the assumptions of investors. The annual net income has been divided by an appropriate rate factor to determine value. The chosen rate or factor represents the relationship between income and value as observed by the market. This implicit rate is deemed to satisfy a typical investor assuming that the prospects for future monetary benefit over and above the amount originally invested are sufficient.

The Directors of the Group have reviewed the assumption and methodology used by the independent valuer and in their opinion the assumption and the methodology are reasonable as at the reporting date considering the current economic and real estate outlook the United Arab Emirates.

**Sharjah Group Company P.S.C and its subsidiary**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

**7 Categories of financial assets and financial liabilities**

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and liabilities:

|                                                                     | 2017<br>AED       | 2016<br>AED       |
|---------------------------------------------------------------------|-------------------|-------------------|
| <b><i>Financial assets</i></b>                                      |                   |                   |
| Loans and receivables                                               |                   |                   |
| Trade and other receivables                                         | 1,145,955         | 627,193           |
| Cash and cash equivalents                                           | 7,261,895         | 3,626,148         |
| Investments at fair value through other comprehensive income        | 19,443,092        | 21,833,301        |
| Investments at fair value through profit or loss                    | 2,534,486         | 2,267,872         |
|                                                                     | <u>30,385,428</u> | <u>28,354,514</u> |
| <br><b><i>Financial liabilities measured at amortised cost:</i></b> |                   |                   |
| Trade and other payables                                            | 61,221,831        | 60,314,579        |
| Dividends payable                                                   | 29,936,690        | 30,370,073        |
|                                                                     | <u>91,158,521</u> | <u>90,684,652</u> |

A description of the Group's financial statements risk, including risk management objectives and policies is given in Note 22 and methods used to measure fair value are described in Note 23.

**8 Investments at fair value through other comprehensive income**

|                      | 2017<br>AED       | 2016<br>AED       |
|----------------------|-------------------|-------------------|
| Quoted investments   | 17,187,725        | 18,289,325        |
| Unquoted investments | 2,255,367         | 3,543,976         |
|                      | <u>19,443,092</u> | <u>21,833,301</u> |

The movement in investments classified at fair value through other comprehensive income is as follows:

|                         | 2017<br>AED       | 2016<br>AED       |
|-------------------------|-------------------|-------------------|
| Balance at January 1,   | 21,833,301        | 18,334,587        |
| Changes in fair value   | (2,585,594)       | 3,701,968         |
| Sale of investments     | (41,846)          | -                 |
| Impairment loss         | -                 | (115,789)         |
| Translation reserve     | 237,231           | (87,465)          |
| Balance at December 31, | <u>19,443,092</u> | <u>21,833,301</u> |

The Company sold certain shares during 2017 for an amount of AED 63,548 (2016: AED Nil) where the realised gain on sale amounted to AED 21,702 (2016: AED Nil).

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**9 Investments classified at fair value through profit or loss**

|                      | 2017<br>AED      | 2016<br>AED      |
|----------------------|------------------|------------------|
| Quoted investments   | 2,457,861        | 2,265,979        |
| Unquoted investments | 76,625           | 1,893            |
|                      | <u>2,534,486</u> | <u>2,267,872</u> |

Investments classified at fair value through profit or loss comprises of investment with a carrying value of AED 576,134 (2016: AED 269,778) in UAE and AED 1,958,352 (2016: 1,998,094) in State of Kuwait.

The movement in investment classified at fair value through profit and loss is as follows:

|                          | 2017<br>AED      | 2016<br>AED      |
|--------------------------|------------------|------------------|
| Balance at January 1,    | 2,267,872        | 2,260,259        |
| Purchase during the year | -                | 173,717          |
| Change in fair value     | 242,721          | (158,099)        |
| Translation reserve      | 23,893           | (8,005)          |
| Balance at December 31,  | <u>2,534,486</u> | <u>2,267,872</u> |

**10 Trade and other receivables**

|                                    | 2017<br>AED      | 2016<br>AED    |
|------------------------------------|------------------|----------------|
| <i>Financial assets</i>            |                  |                |
| Trade receivables, gross           | 2,450,100        | 1,547,275      |
| Less: Provision for doubtful debts | (1,425,442)      | (1,129,256)    |
|                                    | <u>1,024,658</u> | <u>418,019</u> |
| Deposits                           | 109,396          | 195,378        |
| Staff advances                     | 8,600            | 10,496         |
| Other receivables                  | 3,301            | 3,300          |
|                                    | <u>1,145,955</u> | <u>627,193</u> |
| <i>Non-financial assets</i>        |                  |                |
| Prepayments                        | 148,150          | 127,088        |
|                                    | <u>1,294,105</u> | <u>754,281</u> |

As at December 31, 2017, all of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired amounting to AED 1,425,442 (2016: AED 1,129,256). The movement in provision for doubtful debts of trade receivables can be reconciled as follows:

|                                 | 2017<br>AED      | 2016<br>AED      |
|---------------------------------|------------------|------------------|
| Balance at January 1,           | 1,129,256        | 924,365          |
| Charge for the year (Note 19)   | 327,949          | 204,891          |
| Write-off during the year       | (14,763)         | -                |
| Reversal of provision (Note 20) | (17,000)         | -                |
| Balance at December 31,         | <u>1,425,442</u> | <u>1,129,256</u> |

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**10 Trade and other receivables (continued)**

As at December 31, 2017, the ageing of unimpaired trade receivables is as follows:

|             | <i>Total</i>     | <i>Neither</i>                   | <i>Past due but not impaired</i> |                         |                          |                             |
|-------------|------------------|----------------------------------|----------------------------------|-------------------------|--------------------------|-----------------------------|
|             |                  | <i>Past due<br/>nor impaired</i> | <i>3 – 6<br/>months</i>          | <i>6 – 9<br/>months</i> | <i>9 – 12<br/>months</i> | <i>More than<br/>1 Year</i> |
|             | AED              | AED                              | AED                              | AED                     | AED                      | AED                         |
| <b>2017</b> | <b>1,024,658</b> | <b>648,796</b>                   | <b>244,010</b>                   | <b>56,131</b>           | <b>75,721</b>            | <b>-</b>                    |
| <b>2016</b> | <b>418,019</b>   | <b>260,931</b>                   | <b>66,710</b>                    | <b>77,328</b>           | <b>13,050</b>            | <b>-</b>                    |

Trade accounts receivable are non-interest bearing and are generally settled in within normal credit terms of 30 to 90 days after which they are considered to be past due. Unimpaired accounts receivable are expected, on the basis of past experience, to be recoverable. It is not the practice of the Group to obtain collateral over accounts receivable and the vast majority are, therefore, unsecured.

**11 Related parties**

In the normal course of business, the Group carries on business with other entities, which fall within the definition of a related party in accordance with IFRS. These transactions are carried out in the normal course of business and are measured at the amounts agreed by both the parties.

For the purpose of the consolidated financial statements, entities are considered to be related to the Company or the Group if the Company or the Group has the ability, directly or indirectly, to exercise significant influence over the entities in making financial and operating decisions, or vice versa, or where the Company or the Group are subject to common control or significant influence.

**Compensation of key management personnel**

Key management personnel of the Group include the Managing Director and Directors. Key management personnel compensation includes the following:

|                                                    | <b>2017</b>    | <b>2016</b> |
|----------------------------------------------------|----------------|-------------|
|                                                    | <b>AED</b>     | <b>AED</b>  |
| Board of Directors' remuneration                   | <b>840,000</b> | 490,000     |
| Salaries and other short-term employee benefits    | <b>688,905</b> | 711,514     |
| Other expenses for Directors                       | <b>60,461</b>  | 6,000       |
| End of service benefits charged to profit and loss | <b>44,933</b>  | 37,895      |
| Sitting fee for Directors                          | <b>-</b>       | 142,500     |

**Board of Directors' remuneration**

This represents professional fees paid to the Group's Directors for serving as the board, and devoting special time and attention to the business and affairs of the Group. In accordance with the interpretation of Article 169 of the UAE Federal Law No. 2 of 2015, the Group's policy is to recognise the Board of Directors' remuneration as an appropriation of retained earnings.

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**12 Cash and bank balances**

|               | 2017<br>AED      | 2016<br>AED      |
|---------------|------------------|------------------|
| Cash at banks | 7,254,659        | 3,594,312        |
| Cash in hand  | 7,236            | 31,836           |
|               | <u>7,261,895</u> | <u>3,626,148</u> |

**13 Share capital**

The authorised, issued and fully paid share capital of the Group consists of 78,901,086 fully paid ordinary shares with a par value of AED 1 each.

**Dividends**

During the year, the Board of Directors declared and paid 4% of share capital cash dividends for 2016 of AED 3,156,043 (AED 0.04 per share) (2016: declared and paid 12% of share capital cash dividends for 2015 of AED 9,468,115 (AED 0.12 per share) out of the retained earnings, which was approved during the General Assembly on March 29, 2017.

**14 Statutory reserve**

In accordance with the Articles of Association of the Group and Article 103 of the UAE Federal Law No. (2) of 2015, a minimum of 10% of the net profit of the Group is required to be allocated every year to statutory reserve. Such transfers are required to be made until the balance on the reserve equals one half of the Group's paid-up share capital. The reserve is not available for distribution except as provided for in the UAE Commercial Law.

**15 Voluntary reserve**

As required by the Group's articles of association, 10% of Group's net profit for the year is required to be transferred to the voluntary reserve until such reserve equals one half of the Group's share capital, the reserve is available for distribution at the desecration of the Group's General Assembly.

**16 Basic and diluted earnings per share**

|                                      | 2017<br>AED       | 2016<br>AED       |
|--------------------------------------|-------------------|-------------------|
| Profit for the year                  | 19,158,588        | 19,660,994        |
| Weighted average number of shares    | <u>78,901,086</u> | <u>78,901,086</u> |
| Basic and diluted earnings per share | <u>0.24</u>       | <u>0.25</u>       |
| Basic and diluted earnings per share | <u>24.3 fills</u> | <u>24.9 fills</u> |

**17 Employees' end of service benefits**

|                                 | 2017<br>AED    | 2016<br>AED    |
|---------------------------------|----------------|----------------|
| As at January 1,                | 784,784        | 652,983        |
| Provisions made during the year | 153,536        | 138,268        |
| Payment made during the year    | -              | (6,467)        |
| As at December 31,              | <u>938,320</u> | <u>784,784</u> |

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**For the year ended December 31, 2017**

**18 Trade and other payables**

|                                               | 2017<br>AED       | 2016<br>AED       |
|-----------------------------------------------|-------------------|-------------------|
| <i>Financial liabilities</i>                  |                   |                   |
| Trade payables                                | 741,808           | 1,351,911         |
| Refundable deposits                           | 956,028           | 1,010,962         |
| Provision for claims and other legal expenses | 59,054,103        | 57,569,799        |
| Accrued expenses                              | 469,892           | 381,907           |
|                                               | <u>61,221,831</u> | <u>60,314,579</u> |
| <i>Non-financial liabilities</i>              |                   |                   |
| Rental income received in advance             | 1,741,951         | 1,717,538         |
|                                               | <u>62,963,782</u> | <u>62,032,117</u> |

Provision for claims and other legal fees and other legal expenses relate to a legal case filed against the Group in December 1999. The final verdict on this case dated November 2010 required the Group to pay an amount of USD 5.7 million or its equivalent in Kuwaiti Dinars using the exchange rate announced by the Central Bank of Kuwait in December 1999 and interest of 7% of the claimed amount for the period starting June 22, 1992 to the date of settlement. The claimed amount has been fully provided as at December 31, 2017.

**19 Administrative and general expenses**

|                                                   | 2017<br>AED      | 2016<br>AED      |
|---------------------------------------------------|------------------|------------------|
| Staff costs                                       | 2,299,761        | 1,784,966        |
| Legal and professional fees                       | 1,018,161        | 975,735          |
| Salaries and other benefits to Executive Director | 733,838          | 749,409          |
| Utilities                                         | 392,425          | 344,055          |
| Provision for doubtful accounts (Note 10)         | 327,949          | 204,891          |
| Rentals – operating lease                         | 143,784          | 144,360          |
| Depreciation (Note 5)                             | 115,379          | 195,112          |
| Sitting fees for Directors                        | -                | 142,500          |
| Others                                            | 498,168          | 372,080          |
|                                                   | <u>5,529,465</u> | <u>4,913,108</u> |

**20 Other income**

|                                          | 2017<br>AED    | 2016<br>AED    |
|------------------------------------------|----------------|----------------|
| Reversal of provision (Note 10)          | 17,000         | -              |
| Gain on sale of properties and equipment | 6,500          | -              |
| Foreign exchange loss                    | (8,286)        | (28,103)       |
| Others                                   | 193,588        | 899,832        |
|                                          | <u>208,802</u> | <u>871,729</u> |

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**21 Commitments**

**Capital commitment**

At December 31, 2017, the Group had estimated capital commitments of construction of investment properties of AED 235,370 (2016: AED 235,370).

**Operating lease agreements – Group as lessor**

The Group has entered into various operating lease agreements for investment properties. As at the year end, the future lease amounting to AED 7,363,841 (2016: AED 7,470,813) are due within one year, future lease amounting to AED 697,500 (2016: AED 1,300,000) are due above one year to five years, from the statement of financial position date under these operating leases.

**22 Financial instrument risk**

**Risk management objectives and policies**

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 7. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at Group level, in close cooperation with the Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

**Market risk analysis**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group is exposed to market risk through its use of financial instruments and specifically to interest rate risk, foreign currency risk and price risks, which result from both its operating and investing activities.

**i. Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is not significantly exposed to interest rate sensitivity since the Group has no significant interest bearing assets and liabilities.

**ii. Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Most of the Group's transactions are carried out in AED. Exposures to currency exchange rates arise from the Subsidiary's trading transaction and investment in financial instrument which are primarily denominated in Kuwaiti Dinar (KD).

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**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

**22 Financial instrument risk (continued)**

**Risk management objectives and policies (continued)**

**Market risk analysis (continued)**

**iii. Foreign currency risk (continued)**

To mitigate the Group's exposure to foreign currency risk, non-AED cash flows are monitored and are entered into in accordance with the Group's risk management policies.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into AED at the closing rate:

|                       | 2017<br>AED       | 2016<br>AED       |
|-----------------------|-------------------|-------------------|
| Financial assets      | 22,039,092        | 24,744,468        |
| Financial liabilities | (61,014)          | (64,623)          |
|                       | <u>21,978,078</u> | <u>24,679,845</u> |

The following table illustrates the sensitivity of profit and equity in regard to the Group's financial assets and financial liabilities and the KD/AED exchange rate 'all other variables held constant'. It assumes a  $\pm 10\%$  change of the KD/AED exchange rate for the year ended at December 31, 2017 (2016:  $\pm 10\%$ ). This percentage has been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

If the AED had strengthened against the KD by 10% (2016: 10%) then this would have had the following impact:

|                            | 2017<br>AED      | 2016<br>AED      |
|----------------------------|------------------|------------------|
| Profit                     | 253,499          | 284,655          |
| Other comprehensive income | 1,944,309        | 2,183,330        |
| Equity                     | <u>2,197,807</u> | <u>2,467,985</u> |

If the AED had weakened against the KD by 10% (2016: 10%) then this would have had the following impact:

|                            | 2017<br>AED        | 2016<br>AED        |
|----------------------------|--------------------|--------------------|
| Profit                     | (253,499)          | (284,655)          |
| Other comprehensive income | (1,944,309)        | (2,183,330)        |
| Equity                     | <u>(2,197,807)</u> | <u>(2,467,985)</u> |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

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Notes to the consolidated financial statements (continued)  
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**22 Financial instrument risk (continued)**

**Risk management objectives and policies (continued)**

**iv. Other price risk sensitivity**

The Group is exposed to other price risk in respect of its listed and unlisted equity securities (see note 7).

For the listed equity securities, an average volatility of 7% has been observed during 2017 (2016: 7%). This volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by AED 183,227 (2016: AED 158,500). The listed securities are classified as investments at fair value through profit or loss. The investments in listed equity securities are considered short-term, strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Group's favour.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to this risk for various financial instruments, for example trade receivables from customers, placing deposits, etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below.

|                   | 2017             | 2016             |
|-------------------|------------------|------------------|
|                   | AED              | AED              |
| Trade receivables | 2,450,100        | 1,547,275        |
| Cash at banks     | 7,254,659        | 3,594,312        |
|                   | <u>9,704,759</u> | <u>5,141,587</u> |

- Trade receivable represents the rent receivable from tenants that is due at the reporting date. The Group has a policy of obtaining post-dated cheque for the rent period covered under the lease agreement, as at the reporting date the value of the post-dated cheques were AED 4,799,700 (2016: AED 4,987,912).

*Trade receivables*

The Group seeks to limit its credit risk with respect to contract customers by setting credit limits for individual customers and monitoring outstanding receivables.

*Cash at banks*

The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

Credit risk is limited to the carrying values of financial assets in the consolidated statement of financial position.

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**22 Financial instrument risk (continued)**

**Risk management objectives and policies (continued)**

**Liquidity risk**

Liquidity risk also referred to as funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The table below summarises the maturities of the Group's undiscounted financial liabilities at December 31:

|                             | Less than 3<br>months<br>AED | 3-12<br>months<br>AED | 1 to 5<br>years<br>AED | Total<br>AED      |
|-----------------------------|------------------------------|-----------------------|------------------------|-------------------|
| <b>At December 31, 2017</b> |                              |                       |                        |                   |
| Trade and other payables    | 2,167,728                    | 59,054,103            | -                      | 61,221,831        |
| Dividends payable           | -                            | 29,936,690            | -                      | 29,936,690        |
|                             | <u>2,167,728</u>             | <u>88,990,793</u>     | <u>-</u>               | <u>91,158,521</u> |

|                             | Less than 3<br>months<br>AED | 3-12<br>months<br>AED | 1 to 5<br>years<br>AED | Total<br>AED      |
|-----------------------------|------------------------------|-----------------------|------------------------|-------------------|
| <b>At December 31, 2016</b> |                              |                       |                        |                   |
| Trade and other payables    | 4,579,631                    | 57,569,799            | -                      | 62,149,430        |
| Dividends payable           | -                            | 30,370,073            | -                      | 30,370,073        |
|                             | <u>4,579,631</u>             | <u>87,939,872</u>     | <u>-</u>               | <u>92,519,503</u> |

**23 Fair value measurement**

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Fair value of the financial assets at fair value through profit or loss (FVPL) is determined on the basis of the net asset value of the investment as provided by the valuator.

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**23 Fair value measurement (continued)**

**Fair value measurement of financial instruments**

The following table shows the Levels within the hierarchy of financial assets measured at fair value on a recurring basis at December 31, 2017 and December 31, 2016.

|                                                              | Level 1<br>AED | Level 2<br>AED | Level 3<br>AED | Total<br>AED |
|--------------------------------------------------------------|----------------|----------------|----------------|--------------|
| <b>At December 31, 2017</b>                                  |                |                |                |              |
| Investments at fair value through profit or loss             | 2,457,861      | -              | 76,625         | 2,534,486    |
| Investments at fair value through other comprehensive income | 17,187,725     | -              | 2,255,367      | 19,443,092   |
|                                                              | Level 1<br>AED | Level 2<br>AED | Level 3<br>AED | Total<br>AED |
| <b>At December 31, 2016</b>                                  |                |                |                |              |
| Investments at fair value through profit or loss             | 2,265,979      | -              | 1,893          | 2,267,872    |
| Investments at fair value through other comprehensive income | 18,289,325     | -              | 3,543,976      | 21,833,301   |

The following table shows a reconciliation of all movements in the fair value of financial assets categorised within Level 3.

|                           | 2017<br>AED | 2016<br>AED |
|---------------------------|-------------|-------------|
| Balance at January 1,     | 3,545,869   | 3,201,136   |
| Changes in the fair value | (916,286)   | 474,728     |
| Sale of investment        | (41,846)    | -           |
| Impairment losses         | (284,201)   | (115,789)   |
| Translation reserve       | 28,456      | (14,206)    |
| Balance at December 31,   | 2,331,992   | 3,545,869   |

**Measurement of fair value of financial instruments**

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations.

Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of level 3 fair value measurements.

**Description of significant unobservable inputs to valuation of financial assets:**

Unquoted equity securities are valued based on book value and the price to book value multiple method. Multiples are determined using the latest financial statements available of the investee entities, by analyzing the performance of other companies in the same industry and by taking into account specific industry factors that may impact the valuation.

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**Notes to the consolidated financial statements (continued)**  
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**23 Fair value measurement (continued)**

**Fair value measurement of non-financial instruments**

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as at December 31, 2017 and December 31, 2016:

|                              | Level 1<br>AED | Level 2<br>AED | Level 3<br>AED | Total<br>AED |
|------------------------------|----------------|----------------|----------------|--------------|
| <b>December 31, 2017</b>     |                |                |                |              |
| <b>Investment properties</b> | -              | -              | 247,122,700    | 247,122,700  |
|                              | Level 1<br>AED | Level 2<br>AED | Level 3<br>AED | Total<br>AED |
| <b>December 31, 2016</b>     |                |                |                |              |
| <b>Investment properties</b> | -              | -              | 235,755,320    | 235,755,320  |

The following table shows a reconciliation of all movements in the fair value of non-financial assets categorised within Level 3.

|                                                                       | 2017<br>AED | 2016<br>AED |
|-----------------------------------------------------------------------|-------------|-------------|
| As at January 1,                                                      | 235,755,320 | 216,747,723 |
| Additions during the year                                             | 258,550     | 7,691,897   |
| Unrealised gain on revaluation of investment properties at fair value | 11,108,830  | 11,315,700  |
| As at December 31,                                                    | 247,122,700 | 235,755,320 |

Fair value of the Group's main investment properties are estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors at each reporting date.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of level 3 fair value measurements.

**Description of valuation methods used in the fair valuation of investment properties:**

The investment properties are valued using the direct capitalization method which is used to convert the estimate of a single year's income expectancy into an indication of value. Direct capitalization is market oriented and infers the assumptions of investors. The annual net income has been divided by an appropriate rate factor to determine value. The chosen rate or factor represents the relationship between income and value as observed by the market. This implicit rate is deemed to satisfy a typical investor assuming that the prospects for future monetary benefit over and above the amount originally invested are sufficient.

**24 Accounting estimates and judgment**

The Group makes estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2017**

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**24 Accounting estimates and judgment (continued)**

***Impairment losses on receivables***

The Group reviews its receivables to assess impairment on a regular basis. The Group's credit risk is primarily attributable to its trade receivables. In determining whether impairment losses should be reported in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

***Estimated useful life and residual value of property and equipment***

The Group's management determines the estimated useful lives and related depreciation charge for its property and equipment on an annual basis. The Group has carried out a review of the residual values and useful lives of property and equipment as at December 31, 2017 and the management has not highlighted any requirement for an adjustment to the residual lives and remaining useful lives of the assets for the current or future periods.

***Valuation of investment properties***

Investment properties are accounted for using the "Fair Value Model". The Group fair values investment properties at regular intervals, should the significant assumptions used for the purposes of valuation have changed, the fair value of investment properties would impact the disclosure of the fair value in the financial statements.

***Valuation of financial instruments***

The Group's accounting policy on fair value measurements is discussed in note 3.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in the market that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuations.