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**Private Department of
Skh Mohamed Bin Khalid Al Nahyan LLC**

**Directors' report and consolidated financial statements
for the year ended 31 December 2022**

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Directors' report and consolidated financial statements for the year ended 31 December 2022

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Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Directors' report for the year ended 31 December 2022

The Board of Directors submit their report together with the audited consolidated financial statements of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC ("the Department"), and its subsidiaries (together, "the Group") for the year ended 31 December 2022.

Principal activities

The Group operates mainly in the fields of hospitality and real estate lease.

Results for the year

The results of the Group for the year ended 31 December 2022 are set out on page 9 of the consolidated financial statements.

Board Members

Members who served in the Board during the year were:

Sh. Khalifa bin Mohammed bin Khalid Al Nahyan - Chairman
Sh. Sultan bin Mohammed bin Khalid Al Nahyan - Vice Chairman
Sh. Hamdan bin Mohammed bin Khalid Al Nahyan - Board Member
Mr. Abdul Jalil Abdul Rehman Mohammed Al Blouki - Managing Director

Auditors

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board



.....
Sh. Khalifa bin Mohammed bin Khalid Al Nahyan
Chairman

Date: 10 APR 2023

Independent auditor's report to the shareholders of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (the "Department") and its subsidiaries (together referred to as the "Group") as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that as of 31 December 2022, the Group's current liabilities exceeded its current assets by AED 116 million (2021: AED 253 million). As stated in Note 2, this event or condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



Independent auditor's report to the shareholders of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (continued)

Report on the audit of the consolidated financial statements (continued)

Our audit approach

Overview

Key Audit Matter • Classification of Sukuk Instruments.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent auditor's report to the shareholders of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Classification of Sukuk Instruments</p> <p>On 23 September 2022, the Group listed a USD 300 million Islamic bonds sale in London's stock exchange through PD Sukuk Ltd. (a Trustee of the certificates) (Note 15).</p> <p>The Sukuk are at a fixed profit rate of 8.75% distributed semi-annually with a scheduled dissolution date on 23 September 2025.</p> <p>As of 31 December 2022, Sukuk Instruments were classified as non-current liabilities in the statement of financial position.</p> <p>Due to the materiality of the amount involved and the complexity of the Certificates as well as its impact on the Group's businesses and activities, we assess the Classification of Sukuk Instruments as a key audit matter.</p>	<p>Our audit procedures performed in relation to classification of Sukuk Instruments included:</p> <ul style="list-style-type: none">• obtained the related Offering Circular and related agreements in order to assess the accounting implications of the Certificates on the consolidated financial statements of the Group;• Involved our technical accounting team to assess the appropriateness of the classification in accordance with IFRS;• traced the consideration received for the Certificates to bank statements;• assessed the compliance with the Sukuk covenants; and• assessed the completeness and accuracy of disclosures within the consolidated financial statements in accordance with IFRS.

Other information

The directors are responsible for the other information. The other information comprises of the Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information which we obtained prior to the date of this auditor's report, 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 Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (continued)

Report on the audit of the consolidated financial statements (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (32) of 2021, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.



Independent auditor's report to the shareholders of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (32) of 2021;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

Independent auditor's report to the shareholders of Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (continued)


Report on the audit of the consolidated financial statements (continued)

Report on other legal and regulatory requirements (continued)

- (v) Note 18 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- (vi) Note 1 to the consolidated financial statements discloses the Group's investments in shares during the year ended 31 December 2022;
- (vii) as disclosed in Note 21 to the consolidated financial statements, the Group has made social contributions during the year ended 31 December 2022; and
- (viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Law No. (32) of 2021, or in respect of the Department's Articles of Association which would materially affect its activities or its financial position as at 31 December 2022.

PricewaterhouseCoopers

10 APR 2023



Rami Sarhan
Registered Auditor Number 1152
Abu Dhabi, United Arab Emirates



Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Consolidated statement of financial position

	Note	As at 31 December	
		2022 AED	2021 AED
ASSETS			
Non-current assets			
Property and equipment	6	832,560,900	822,888,129
Investment properties	7	4,655,359,092	4,590,890,910
		<u>5,487,919,992</u>	<u>5,413,779,039</u>
Current assets			
Inventories		1,696,491	1,502,088
Trade and other receivables	8	63,815,336	59,382,357
Due from related parties	18	133,155,797	377,168
Cash and cash equivalents	9	93,018,391	35,024,563
Bank deposits	9	-	10,000,000
		<u>291,686,015</u>	<u>106,286,176</u>
Total assets		<u>5,779,606,007</u>	<u>5,520,065,215</u>
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	10	11,800,000	11,800,000
Legal reserve	11	5,900,000	5,900,000
General reserve	12	868,641,817	868,641,817
Retained earnings		2,187,588,685	2,102,392,322
Revaluation reserve	13	45,980,313	29,304,334
Total equity		<u>3,119,910,815</u>	<u>3,018,038,473</u>
LIABILITIES			
Non-current liabilities			
Bank borrowings	14	1,141,967,773	2,133,418,437
Sukuk Instruments	15	1,101,300,000	-
Provision for employees' end of service benefits	16	8,795,604	9,180,880
		<u>2,252,063,377</u>	<u>2,142,599,317</u>
Current liabilities			
Bank borrowings	14	202,322,773	131,646,575
Sukuk Instruments	15	25,964,677	-
Bank overdraft	9	27,674,844	29,108,966
Derivative financial liabilities	25	-	32,699,640
Trade and other payables	17	136,768,099	122,726,672
Due to related parties	18	14,901,422	43,245,572
		<u>407,631,815</u>	<u>359,427,425</u>
Total liabilities		<u>2,659,695,192</u>	<u>2,502,026,742</u>
Total equity and liabilities		<u>5,779,606,007</u>	<u>5,520,065,215</u>

These consolidated financial statements were authorised for issuance by the Board of Directors on **10 APR 2023** and signed on its behalf by:

.....
Sh. Khalifa bin Mohammed
bin Khalid Al Nahyan
Chairman

.....
Abdul Jalil Abdul Rehman
Mohammed Al Blouki
Managing Director

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2022 AED	2021 AED
Revenue	19	331,443,812	313,180,882
Direct costs	20	(71,796,399)	(64,683,885)
Gross profit		<u>259,647,413</u>	<u>248,496,997</u>
General and administrative expenses	21	(83,904,395)	(59,179,084)
Marketing and selling expenses	23	(6,629,496)	(5,261,189)
Management incentive fee	18	(1,454,533)	(1,212,820)
Net impairment loss on financial assets	8	(2,137,032)	(4,133,652)
Unrealised loss on revaluation of investment properties	7	(636,257)	(21,948,729)
Unrealised loss on revaluation of property and equipment	6	(26,093,141)	(1,359,773)
Other income		<u>78,244</u>	<u>105,518</u>
Operating profit		138,870,803	155,507,268
Finance costs	24	(93,085,068)	(45,277,417)
Finance income		1,204,488	4,970,109
Changes in fair values of derivative financial instruments	25	<u>38,206,140</u>	<u>2,391,919</u>
Profit for the year		<u>85,196,363</u>	<u>117,591,879</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property and equipment	6	<u>16,675,979</u>	<u>14,835,693</u>
Total comprehensive income for the year		<u>101,872,342</u>	<u>132,427,572</u>
Earnings per share for profit attributable to the ordinary equity holders of the Parent Company			
Basic earnings per share	26	<u>7.22</u>	<u>9.97</u>

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Consolidated statement of changes in equity

	Share capital AED	Legal reserve AED	General reserve AED	Retained earnings AED	Revaluation reserve AED	Total equity AED
At 1 January 2021	11,800,000	5,900,000	868,641,817	2,124,928,450	14,468,641	3,025,738,908
Profit for the year	-	-	-	117,591,879	-	117,591,879
Other comprehensive income	-	-	-	-	14,835,693	14,835,693
Total comprehensive income for the year	-	-	-	117,591,879	14,835,693	132,427,572
<i>Transactions with shareholders:</i>						
Dividends paid (Note 18)	-	-	-	(140,128,007)	-	(140,128,007)
At 31 December 2021	11,800,000	5,900,000	868,641,817	2,102,392,322	29,304,334	3,018,038,473
Profit for the year	-	-	-	85,196,363	-	85,196,363
Other comprehensive income	-	-	-	-	16,675,979	16,675,979
Total comprehensive income for the year	-	-	-	85,196,363	16,675,979	101,872,342
At 31 December 2022	11,800,000	5,900,000	868,641,817	2,187,588,685	45,980,313	3,119,910,815

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2022 AED	2021 AED
Cash flows from operating activities			
Profit for the year		85,196,363	117,591,879
Adjustments for:			
Depreciation of property and equipment	6	19,619,134	19,960,904
Unrealised loss on revaluation of investment properties	7	636,257	21,948,729
Unrealised loss on revaluation of property and equipment		26,093,141	1,359,773
Changes in fair values of derivative financial instruments	25	(38,206,140)	(2,391,919)
Provision for employees' end of service benefits	16	1,222,679	1,012,798
Net impairment loss on financial assets	8	2,137,032	4,133,652
Finance costs	24	93,085,068	45,277,417
Interest income		(410,782)	(453,819)
Finance income		(793,706)	(4,516,290)
Operating cash flows before payment of employees' end of service benefits and changes in working capital			
		188,579,046	203,923,124
Payment of employees' end of service benefits	16	(1,607,955)	(1,098,032)
Changes in working capital:			
Inventories		(194,403)	(202,711)
Trade and other receivables		(6,570,011)	(5,192,027)
Due from related parties		(132,778,629)	(77,164)
Trade and other payables		14,041,427	7,824,193
Due to related parties		(28,344,150)	(21,980,694)
Net cash generated from operating activities		33,125,325	183,196,689
Cash flows from investing activities			
Purchases of property and equipment	6	(16,183,934)	(24,659,280)
Acquisition of investment properties	7	(48,050,206)	(77,872,163)
Bank deposits placed		10,000,000	375,038
Interest received on fixed deposits		410,782	341,597
Interest received on other financial instruments		793,706	4,516,291
Net cash used in investing activities		(53,029,652)	(97,298,517)
Cash flows from financing activities			
Proceeds from bank borrowings	14	61,073,000	112,929,000
Proceeds from Sukuk Instruments	15	1,101,300,000	-
Proceeds from derivatives	25	5,506,500	-
Repayment of bank borrowings		(940,856,225)	(4,282,533)
Dividends paid to shareholders	18	-	(140,128,007)
Finance cost paid		(147,690,998)	(56,526,229)
Net cash generated from / (used in) financing activities		79,332,277	(88,007,769)

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Consolidated statement of cash flows (continued)

	Note	Year ended 31 December	
		2022 AED	2021 AED
Net increase / (decrease) in cash and cash equivalents (net of bank overdrafts)		59,427,950	(2,109,597)
Cash and cash equivalents at beginning of the year (net of bank overdrafts)		<u>5,915,597</u>	<u>8,025,194</u>
Cash and cash equivalents at end of the year (net of bank overdrafts)	9	<u>65,343,547</u>	<u>5,915,597</u>
Non-cash transactions			
Transfer fair value of Property and equipment to equity	6	<u>16,675,979</u>	<u>14,835,693</u>

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022

1 General information

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (the “Department”) is a limited liability company incorporated in the United Arab Emirates under the UAE Federal Law No. (32) of 2021, and operates under a commercial license number CN-1020235 dated 5 May 1998 issued by Department of Economic Development.

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Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC (the “Department”) and its subsidiary (together referred to as the “Group”) operates mainly in the fields of hospitality and real estate lease.

The registered address of the Department is PO Box 305, Corniche Street, Abu Dhabi, UAE.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group has complied with the provisions of the UAE Federal Decree Law No. 32 of 2021.

On 9 December 2022, the UAE Ministry of Finance released Federal Decree Law No. (47) of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023.

However, at year end the threshold at which the 9% tax rate would apply was not finalised in the Law as the relevant Cabinet Decision had not been announced. Therefore, pending this decision by the Cabinet, the Group has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. Following the publication of the Cabinet Decision on 16 January 2023, the Group will be subject to a 9% corporate tax rate on taxable income above a threshold of AED 375,000 for periods beginning on or after 1 June 2023. The Group is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective.

The details of the Group’s subsidiaries is as follows:

Name of subsidiaries	Principal activity	Year of incorporation	Country of incorporation	% interest held	
				2022	2021
Khalidia Real Estate Management L.L.C.	Real estate management	2016	UAE	99.99%	99.99%
PD Sukuk Ltd*	Special Purpose Vehicle (SPV)	2021	Cayman Islands	-	-

During the years ended 31 December 2022 and 2021, the subsidiary (“Khalidia Real Estate Management L.L.C”) is dormant and no transaction occurred during the year.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

1 General information (continued)

* PD Sukuk Limited, as trustee for and on behalf of the Certificateholders and as issuer of the Certificates, an exempted company with limited liability incorporated on 6 April 2021 under, formed and registered in the Cayman Islands with company registration number 373981 with its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the issuance of Sukuk Certificates (Note 15).

2 Going concern

During the year ended 31 December 2022, the Group had a net current liability position of AED 115,945,800 (2021: AED 253,141,249). The Group's shareholders have confirmed that they will provide financial support to the Group to enable it both to meet its liabilities as they fall due and to carry on its business without a significant curtailment of operations.

In adopting the going concern basis, the Group have also considered the business activities of the Group, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the consolidated financial statements.

In response to the liquidity risks posed by the Group's current position, subsequent to year end the Group have obtained a loan modification for the majority of its upcoming bank borrowings repayments, which modifies the repayment due dates for the due borrowings with the first principal payment being on 31 March 2026. In addition, the Group issued USD 50 million Trust Certificates through PD Sukuk (refer to note 31).

Based on the above assessment, the Group would continue to have sufficient liquidity against the commitments and financial covenants for the forecast period. Additionally, the Group will have sufficient headroom to meet its due liabilities in the next 12 months under all the above scenarios.

As a result, the Group believe that it is well placed to manage its financing and other significant risks and that the Group will be able to operate within the level of its facilities for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. For this reason, the Group believes that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.1 Basis of preparation

3.1.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB), and applicable requirements of UAE Federal Decree Law No. 32 of 2021. They have been prepared under the historical cost convention except for investment properties and buildings which are classified as property and equipment, these are at fair value and the defined benefit pension plans that have been measured the present value of future obligations using the projected unit credit method.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The consolidated financial statement are prepared in United Arab Emirates Dirhams (AED) which is the functional and reporting currency of the Group.

New and revised IFRS applied in the preparation of the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these consolidated financial statements. The application of these revised IFRS, except where stated, have not had any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

- (a) **Property, plant and equipment: proceeds before intended use** – amendments to IAS 16, ‘property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- (b) **onerous contracts – cost of fulfilling a contract** – amendments to IAS 37, ‘provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.
- (c) **annual improvements to IFRS standards 2018-2020** - annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’
- (d) **reference to the Conceptual Framework** – amendments to IFRS 3, ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.1 Basis of preparation (continued)

3.1.1 Statement of compliance (continued)

New and revised IFRS issued but not yet effective and not early adopted

- (a) **IFRS 17, 'Insurance contracts', as amended in December 2021 (deferred until accounting periods starting on 1 January 2023)** - This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- (b) **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective 1 January 2023)** - These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.
- (c) **Amendments to IAS 1 - presentation of financial statements', on classification of liabilities (effective 1 January 2024)** - these narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.
- (d) **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective 1 January 2023)** - the amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

The Group is currently assessing the impact of these standards, and amendments on the future consolidated financial statements of the Group and intends to adopt these, if applicable, when they become effective.

3.2 Basis of consolidation

Subsidiaries

A subsidiary is an entity (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A subsidiary is fully consolidated from the date on which control is transferred to the Group and is deconsolidated from the date the control ceases.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Transaction costs attributable to the acquisition are directly expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3 Property and equipment

Buildings and properties, which mainly consist of Group's hotel property, are recognised at fair value based on periodic, but at least yearly, valuations by external independent valuers, less subsequent depreciation for buildings and properties.

Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Buildings and properties category consist of the building and the land which the building is constructed upon.

All other property and equipment are stated at historical cost less depreciation and impairment losses, if any. The historical cost consists of expenses related directly to the acquisition of the asset.

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

Depreciation is calculated so as to write off the cost of property and equipment over the useful lives of these assets as follows:

**Notes to the consolidated financial statements
for the year ended 31 December 2022**

3 Significant accounting policies (continued)

3.3 Property and equipment (continued)

	Years
Buildings and properties	35
Furniture and fixtures	2 to 5
Office equipment	2 to 5
Motor vehicles	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial position date. The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

The repair and maintenance expenses are included in the consolidated statement of comprehensive income when incurred.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.4 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group, are classified as investment properties. Investment properties also includes properties that are being constructed or developed for future use as investment properties.

Investment properties are measured initially at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value.

Investment properties under construction are measured at fair value if the fair value is considered to be reliably determinable. Investment properties under construction for which the fair value cannot be determined reliably, but for which the Group expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed, whichever is earlier.

Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset.

If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.4 Investment properties (continued)

Valuations are performed as of the reporting date by independent professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements.

Investment properties that are being redeveloped for continuing use as investment properties or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, operating lease income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditures are capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditures will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Changes in fair values are recognised in the consolidated statement of comprehensive income. Investment properties are derecognised when they have been disposed.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the consolidated statement of comprehensive income.

If an investment property becomes owner-occupied, it is reclassified as property and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

Investment properties under development

Properties acquired or properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as development properties and are measured at the lower of cost or net realisable value.

Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction; and

Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer fee, construction overheads and other related direct costs.

Cost includes the cost of land, selling transactions cost, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when activities that are necessary to get the assets ready for the intended use are in progress.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.4 Investment properties (continued)

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, unsold properties, if any are transferred at cost to properties held for sale.

Management reviews the carrying values of the development properties on an annual basis.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are carried at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.5 Capitalised borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

3.6 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.7 Financial instruments

Financial assets and liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a part of the contractual provision of the instruments.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.7 Financial instruments (continued)

(a) Financial assets

Classification

The Group classifies its financial assets in accordance with IFRS 9. The Group financial assets consist of trade and other receivables less prepayments, due from related parties and cash and cash equivalents, and bank deposits. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Management determines the classification of its financial assets at initial recognition.

(i) Trade and other receivables and accrued operating lease income

Trade and other receivables are amounts due from customers and related parties for goods sold or services performed in the ordinary course of business. They are generally due for settlement in one year or less and therefore are all classified as current. If not, they are classified as non-current assets.

(ii) Cash and cash equivalents, and bank deposits

Cash and cash equivalents comprise cash on hand, current accounts and bank deposits with original maturities of three months or less, net of bank overdrafts, if any.

Initial Recognition and subsequent measurement

Financial assets at amortised cost are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Impairment of financial assets

(i) Trade and other receivables and accrued operating lease income

The Group applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

(i) Trade and other receivables and accrued operating lease income (continued)

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments per case by case basis.

If, in a subsequent period, the amount of the impaired loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised such as an improvement in the debtor's credit rating. Reversal of the previously recognised impairment loss is recognised in the consolidated statement of financial position.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group's trade receivables are subject to the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.7 Financial instruments (continued)

(a) Financial assets (continued)

Impairment of financial assets (continued)

(ii) Cash and cash equivalents, and bank deposits

Cash and bank balances, and bank deposits are also subject to the impairment requirements of IFRS 9.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) Financial liabilities

Financial liabilities mainly comprise borrowings, Sukuk instruments, trade and other payables (excluding unearned rental income) and due to related parties. Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issue of the instrument, and subsequently carried at amortised cost using the effective interest method. The Group's financial liabilities are classified as financial liabilities at amortised costs.

Classification as debt

Debt instruments are classified as financial liabilities in accordance with the substance of the contractual arrangement and the definitions of a financial liability.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised costs

After initial recognition, interest bearing loans and borrowings and amounts due to a related party are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.7 Financial instruments (continued)

(b) Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

3.8 Offsetting of financial instruments

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

3.9 Cash and cash equivalents, and bank deposits

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks, cash on hand, short-term deposits with a maturity of three months or less and long term deposits with maturity of more than three months which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

3.10 Inventories

Inventories relate to food and beverage, tobacco, and other scrap parts related to the hotel and real estate divisions. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes all costs incurred in acquiring the inventories and bringing them to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less variable selling expenses.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.11 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if the payments' due date is within one year or less. If not, they will be classified as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.12 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

3.13 Provision for employees' end of service benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within 'trade and other payables'.

A provision is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the reporting date. The provision relating to annual leave and leave passage is considered as a current liability included within 'trade and other payables'.

(ii) Other long-term employee benefit obligations

In the UAE, the Group also has liabilities for long service end of service benefits that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

**Notes to the consolidated financial statements
for the year ended 31 December 2022**

3 Significant accounting policies (continued)

3.13 Provision for employees' end of benefits (continued)

(ii) Other long-term employee benefit obligations (continued)

The provision for employees' end of service benefits, disclosed as a long-term liability, where their respective labour laws require providing indemnity payments upon termination of relationship with their employees. The provision relating to end of service benefits is disclosed as a non-current liability.

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the loans using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

3.15 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. The fair values of derivative financial instruments designated in hedge relationships are disclosed in (Note 25). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.15 Derivatives (continued)

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income, within other gains/(losses). The Group does not apply hedge accounting.

Derivative financial instruments represents four interest rate swap arrangements entered with a counter-party bank for a notional amount that mirrors the draw down and repayment schedule of a term loan held by the Group. However, the Group does not apply hedge accounting in accordance with IFRS 9 and gains or losses on derivatives are recognised in the consolidated statement of comprehensive income in “changes in fair value of derivative financial instruments” at Fair Value through Profit or Loss (FVPL). Please refer to Note 25 for further details.

3.16 Leases

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.16 Leases (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group used the rate applicable on their active banking contracts for a loan of equivalent amount.

Lease payments are allocated between principal and finance cost. The finance costs incurred during construction are capitalised in the construction work in progress during the construction period, finance costs incurred after the construction period are charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and is charged to the consolidated statement of comprehensive income. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Operating lease income is recognised on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are derived.

3.17 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.17 Revenue recognition (continued)

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

- (i) Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- (ii) Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- (iii) Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- (iv) Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- (v) Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

The standards require that revenue be recognised as a Group satisfies a performance obligation by transferring control of a good or service. A performance obligation can be satisfied over time or at a point in time.

Revenue is measured based on the consideration to which the Group expects to be entitled in contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

(i) Operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. When the Group provides incentives to its tenants, the cost of the incentives is recognised over the lease term, on a straight-line basis, as a reduction of operating lease income.

(ii) Income from hotel operations

Income from hotel operations comprises revenue from rooms, food and beverages and other associated services provided, and is recognised at the point when the goods are sold or services are rendered. All revenue pertain to hotel operations (room and F&B revenues) are recorded net of discounts and promotions.

Room revenues

Room revenue pertains to income generated by renting rooms to their customers, and it is recognised over time when the goods services are rendered (over the period of the customer's stay in the hotel).

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

3 Significant accounting policies (continued)

3.17 Revenue recognition (continued)

(ii) Income from hotel operations (continued)

F&B revenue

F&B (food and beverage) comprises of revenue recognised from sales of F&B from the food outlets and room service in the hotel, and it is recognised at a point in time when the goods are sold.

3.18 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UAE Dirham, which is the Group's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

3.19 Dividend distribution

Dividend distribution to the Group shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's shareholders. A corresponding amount is recognised directly in equity.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(a) *Market risk*

(i) Foreign exchange risk

The Group has an insignificant exposure to foreign currency risks as the majority of transactions are denominated in UAE dirhams.

(ii) Price risk

The Group is not exposed to price risk in respect of financial instruments as the Group has not invested in listed securities. However, the Group is exposed to price risk other than in respect of financial instruments, such as property price risk including property rentals risk. Please see Note 5 for more details.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its interest bearing liabilities which carry variable interest rates (bank overdrafts and bank borrowings).

The sensitivity analysis calculates the effect of a reasonably possible movement in the interest rate on the consolidated statement of comprehensive income:

	Impact on the consolidated statement of comprehensive income	
	2022	2021
	AED	AED
Interest rates – increase by 100 basis points	<u>(24,732,654)</u>	<u>(22,824,565)</u>
Interest rates – decrease by 100 basis points	<u>24,732,654</u>	<u>22,824,565</u>

IBOR transition (Interest rate benchmark reforms)

As at 31 December 2022, for the 3-months USD LIBOR, the cessation date is June 2023, and the applicable interest rate benchmarks in the Group agreements have not been replaced. As a result, the change in the LIBOR reform as at 31 December 2022 did not have an impact on the consolidated financial statements.

Management will continue to monitor the relevant developments and will evaluate the impact on the IBOR amendments on the consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Individual risk limits are based on management's assessment on a case-by-case basis. The utilisation of credit limits is regularly monitored.

Risk management

Credit risk is managed on a Group basis. The Group's policy is to place cash and bank balances with reputable banks and financial institutions.

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result to minimise the exposure to bad debts. Credit risks are limited to the carrying values of financial assets in the consolidated statement of financial position. The Group earns its revenues from a large number of customers operating from the United Arab Emirates.

The Group has significant concentration of credit risk as explained in Note 8.

Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- trade receivables; and accrued operating lease income;
- due from related parties; and
- cash and bank balances (including cash and cash equivalents, and bank deposits).

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables and accrued operating lease income

The Group structures the levels of credit risk it undertakes by placing limits on the amount of credit risk accepted in relation to a customer. Limits on the level of credit risk are approved regularly by management. Such limits are monitored on a revolving basis and are subject to frequent review. Additionally, on a monthly basis, the Group's debt collection department reviews the aging analysis and follows up on all outstanding payments.

As mentioned in Note 3.7, the Group's trade receivables and accrued operating lease income are subject to the expected credit model. To measure the expected credit losses, trade receivables and due from related parties have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance for trade receivables and due from related parties is based on assumptions about risk of default and expected loss rates.

The expected loss rates are based on the roll rates of receivables over a period of 36 months before 31 December 2022 or 31 December 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and credit rating to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group considers information developed internally or obtained from external sources that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group) as constituting as an event of default for internal credit risk management purposes as historical experience indicating that are generally not recoverable.

Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that potential default may occur when a financial asset is more than 365 days after invoice issuance date unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Trade receivables are provided for when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables and accrued operating lease income (continued)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Due from related parties

While due from related parties are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Cash and cash equivalents, and bank deposits

All banks accounts, derivatives and deposits are held with reputable financial institutions with an appropriate credit rating acceptable to the Group.

While cash and bank balances are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. All banks are investment grade rated ranging from prime 1 to prime 3 categories.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a short-term period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2022 AED	2021 AED
Floating rate		
Expiring within one year (bank overdraft)	7,325,156	5,891,034
Expiring beyond one year (bank borrowings)	192,909,771	246,348,597
	<u>200,234,927</u>	<u>252,239,631</u>

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The bank borrowing facilities may be drawn at any time and are subject to annual review.

The following are the contractual principal maturities of financial liabilities presented on an undiscounted basis:

	Carrying value AED	Contractual cash out flows AED	1 year or less AED	Later than 1 year and not later than 5 years AED	Over 5 years AED
31 December 2022					
Trade and other payables	136,768,099	136,768,099	136,768,099	-	-
Due to related parties	14,901,422	14,901,422	14,901,422	-	-
Bank overdraft	27,674,844	27,674,844	27,674,844	-	-
Bank borrowings	1,344,290,546	1,829,103,146	296,061,999	1,261,139,239	271,901,908
Sukuk Instruments	1,127,264,677	1,390,476,064	122,328,427	1,268,147,637	-
	<u>2,650,899,588</u>	<u>3,398,923,575</u>	<u>597,734,791</u>	<u>2,529,286,876</u>	<u>271,901,908</u>
31 December 2021					
Trade and other payables	122,726,672	122,726,672	122,726,672	-	-
Due to related parties	43,245,572	43,245,572	43,245,572	-	-
Derivative financial liabilities	32,699,640	32,699,640	32,699,640	-	-
Bank overdraft	29,108,966	29,108,966	29,108,966	-	-
Bank borrowings	2,265,065,012	2,611,683,456	199,230,400	1,241,513,949	1,170,939,107
	<u>2,492,845,862</u>	<u>2,839,464,306</u>	<u>427,011,250</u>	<u>1,241,513,949</u>	<u>1,170,939,107</u>

Notes to the consolidated financial statements
for the year ended 31 December 2022

4 Financial risk management (continued)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The policies are based on management's assessment of available options, in conjunction with the shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity plus net debt. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and bank balances. Total capital is calculated as total equity as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2022 and 2021 was as follows:

	2022 AED	2021 AED
Bank borrowings	1,344,290,546	2,265,065,012
Sukuk Instruments	1,127,264,677	-
Less: cash and bank balances	<u>(93,018,391)</u>	<u>(45,024,563)</u>
Net debt	2,378,536,832	2,220,040,449
Equity	<u>3,119,910,815</u>	<u>3,018,038,473</u>
Capital	<u>5,498,447,647</u>	<u>5,238,078,922</u>
Gearing ratio	<u>43%</u>	<u>42%</u>

Loan covenants

Under the terms of the major borrowing facilities (Ijarah Facility 1 and 2), the Group is required to comply with the certain financial covenants:

- Loan to Value ("LTV") ratio of total outstanding facilities including total fair value of derivative liabilities as a percentage of the total asset value mortgaged under the agreement should not to exceed 70% LTV.
- Debt Service Coverage Ratio ("DSCR") should not fall less than 1.25x measured quarterly on a rolling annual basis.
- Debt to EBITDA ratio for the borrower not to exceed 7x EBITDA.

**Notes to the consolidated financial statements
for the year ended 31 December 2022**

4 Financial risk management (continued)

4.2 Capital risk management (continued)

Loan covenants (continued)

For the above covenants, the below related definitions have been outlined in the loan agreements:

- (i) Debt service: means all variable element due and payable under the loan agreement, any scheduled payments (except payments as a result of termination or closing out) due and payable to the counterparties under any hedging agreements, all fixed elements due and payable under loan agreement, and any payments as a result of termination or closing out due and payable to the any hedging counterparties.
- (ii) EBITDA: means in respect to any relevant period and mortgaged asset, EBIT for that relevant period after adding back any amount attributable to amortisation, depreciation, or impairment of non-current assets of the Group (and taking into no account of the reversal of any previous impairment charge made in the same period).
- (iii) Debt: means any outstanding loan facility subject to the financial covenant.

In relation to the Group's major borrowing facilities (Ijarah Facility 1, 2 and Term Loan 2), the Group also have a cross-default clause, which implies that if another loan defaults, then the full loan balances will be immediately due. Since there was no default as of 31 December 2022 and 2021 in any of the loans, the cross-default clause did not apply.

Under the terms of the Sukuk issuance, the Group is required to comply with the certain financial covenants:

- the ratio of Consolidated EBITDA to Consolidated Net Finance Costs in respect of the immediately preceding Measurement Period is:
 - a) in respect of any period to and including 31 December 2021, greater than 1.25:1; or
 - b) in respect of the period from and including 1 January 2022 to and including 31 December 2022, greater than 1.75:1; or
- the ratio of Consolidated Total Indebtedness to Consolidated Total Assets in respect of the immediately preceding Measurement Period is less than 0.60:1,
- Restriction on dividends paid by the Obligor: declare or pay any dividend, in cash or otherwise, or make any other payment or distribution in respect of its Capital Stock;
- limitation on Indebtedness (subsidiaries): provided that any Subsidiary shall be permitted to Incur such Financial Indebtedness if the aggregate amount of such Financial Indebtedness incurred by the Subsidiaries of the Obligor which remains outstanding at such time does not exceed 10 per cent. of the Consolidated Total Assets.

As of 31 December 2022, the Group has not breached any of the above covenants.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.3 Fair value estimation

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose significance of the inputs is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs or any other significant unobservable inputs, that measurement is a Level 3 measurement.

Disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

	Level 1 AED	Level 2 AED	Level 3 AED
At 31 December 2022			
<i>Non-financial assets:</i>			
Investment properties	-	-	4,655,359,092
Buildings and properties	-	-	828,140,908
	<u>-</u>	<u>-</u>	<u>5,483,500,000</u>
At 31 December 2021			
<i>Derivative financial instruments:</i>			
Derivative financial liabilities	-	32,699,640	-
	<u>-</u>	<u>32,699,640</u>	<u>-</u>
<i>Non-financial assets:</i>			
Investment properties	-	-	4,590,890,910
Buildings and properties	-	-	819,409,090
	<u>-</u>	<u>32,699,640</u>	<u>5,410,300,000</u>

The fair value of financial instruments traded in active markets is based on quoted market regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value the instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The carrying values of financial assets and financial liabilities of the Group approximate their fair values, as they are either short term in nature, or held at amortised cost or fair value. The nominal values less impairment provision of trade and other receivables and payables are assumed to approximate their fair values as they are recoverable within 12 months.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

(a) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the unobservable inputs used in recurring level 3 fair value measurements:

Description	Fair value at		Unobservable inputs	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	2022	2021		2022	2021	
Buildings, leased residential and commercial buildings	3,748,500,000	3,712,300,000	Discount rate	9.5%	9.5%	The higher the discount rate, the lower the fair value
			Expected vacancy rate	7%	7%	The higher the capitalisation rate and expected vacancy rate, the lower the fair value
			Capitalisation rate	7% to 8% (7.5%)	7% to 8% (7.5%)	
Properties under development	1,250,000,000	1,213,000,000	Estimated cost to completion	AED 164,588,608	AED 10,288,038 to AED 164,588,608	The higher the estimated costs, the lower the fair value
			Rental growth rate	2.5%	2%	The higher the rental growth rate, the higher the fair value
Hotels	485,000,000	480,000,000	Capital expenditures rate	2.7%	2.7%	The higher the capitalisation rate and expected vacancy rate, the higher the fair value
			Capitalisation rate	7.50%	7.50%	The higher the capitalisation rate, the lower the fair value

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

(a) Valuation inputs and relationships to fair value (continued)

A quantitative sensitivity analysis for significant assumptions (which is the discount rate) on the fair value of investment properties as at 31 December 2022 and 31 December 2021 is, as shown below:

	Impact on fair value of investment properties	
	2022 AED	2021 AED
0.5% increase	27,417,500	27,051,500
0.5% decrease	27,417,500	27,051,500

(b) Valuation techniques used to determine level 3 fair values

The Group obtains independent valuations for its investment properties annually by independent valuers certified by the Royal Institute of Chartered Surveyors. At the end of each reporting period, the management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. The management determines a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available, the Management considers information from a variety of sources including:

- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences,
- discounted cash flow projections based on reliable estimates of future cash flows,
- capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

5 Key assumptions, estimates, and judgments

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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The major estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

5 Key assumptions, estimates, and judgments (continued)

(a) Provision for impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables.

The loss allowance for trade receivables is based on assumptions about risk of default and expected loss rates. Management uses judgement in making these assumptions and selecting the inputs to the impairment calculation which are applied to the exposure at default to arrive at the expected credit losses at the reporting date. Management base their assumptions on the Group's historical data, existing market conditions as well as forward looking estimates.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(b) Impairment of investment properties

The Group assess impairment of its investment properties on a continuous basis by comparing the fair value of its investment properties based on the latest valuation performed by external valuers and internal Management experts. This value will be compared to the carrying amount of investment properties to ascertain any probable impairment in investment properties. Where investment properties are determined to have a significant decline in fair value that could indicate impairment, the Group adjusts the carrying amount of investment properties to its recoverable amount/fair value as of the reporting date. The Management of the Group believes that investment properties are neither impaired nor significantly below their fair value. The Group performs a valuation of its investment properties every year. For details, please refer to Note 7. Please refer to Note 4.3 for the sensitivity analysis.

(c) Ownership of Khalidiya Center

Management has recognised an investment property in the consolidated statement of financial position which is in the name of the shareholders on the basis of a nominee agreement. Under the nominee agreement between the Group and the shareholders, the shareholders have assigned the beneficial interest in this property to the Group. The Group will work on transferring the legal title deed of the mentioned property from the Shareholders to the Group during the coming 12 months from the date of the approval of the consolidated financial statements. For more details of the assigned property, please refer to Note 7. Additionally, this property is mortgaged under the Group's Term Loan 1 (Note 14).

(d) Fair value of property and equipment

The Group assess impairment of its property and equipment on a continuous basis by comparing the fair value of its property and equipment based on the latest valuation performed by independent external. This value will be compared to the carrying amount of buildings and properties under the property and equipment to ascertain any probable impairment in property and equipment. Please refer to Note 4.3 for the sensitivity analysis.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

5 Key assumptions, estimates, and judgments (continued)

(d) Fair value of property and equipment (continued)

Where property and equipment are determined to have a significant decline in fair value that could indicate impairment, the Group adjusts the carrying amount of buildings and properties under property and equipment to its recoverable amount/fair value as of the reporting date. The Management of the Group believes that buildings and properties are neither impaired nor significantly below their fair value. The Group performs a valuation of its investment properties every year. For details, please refer to Note 4.

(e) Useful life of the property and equipment

The Group determines the estimated useful lives and related depreciation charges for its property and equipment. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Management believes that no reasonably possible change in the estimated useful lives would cause the carrying value of the unit to materially change from its current carrying value.

(f) Consolidation of a structured entity under a transaction

The Group does not hold any voting rights in a fully consolidated subsidiary “PD Sukuk Ltd”. The Group has the power and exposure to affect the activities of this subsidiary through a Trustee Arrangement. The Group issued Islamic bonds through a consolidated structured entity incorporated in the Cayman Islands. This entity was consolidated as it was solely set up for the purposes of the issuance of Sukuk certificates, and the Group has exposure to substantially all risks and rewards through the Trustee Agreement of the entity’s obligations.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

6 Property and equipment

	Buildings and properties* AED	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Capital work in progress AED	Total AED
Cost						
At 1 January 2021	826,897,153	39,525,788	21,961,852	3,453,801	1,151,397	892,989,991
Additions	22,835,652	1,464,480	118,558	240,590	-	24,659,280
Transfer from investment properties (Note 7)	5,454,177	-	-	-	-	5,454,177
Transfer from capital work in progress	1,151,397	-	-	-	(1,151,397)	-
Borrowing costs	12,688,652	-	-	-	-	12,688,652
Revaluation gain**	13,475,920	-	-	-	-	13,475,920
At 31 December 2021	882,502,951	40,990,268	22,080,410	3,694,391	-	949,268,020
Additions	12,771,373	2,308,728	841,928	261,905	-	16,183,934
Borrowing costs	22,525,133	-	-	-	-	22,525,133
Revaluation loss**	(9,417,162)	-	-	-	-	(9,417,162)
At 31 December 2022	908,382,295	43,298,996	22,922,338	3,956,296	-	978,559,925
Accumulated depreciation						
At 1 January 2021	46,488,062	36,460,889	20,099,885	3,370,151	-	106,418,987
Charge for the year	16,605,799	1,953,792	1,308,967	92,346	-	19,960,904
At 31 December 2021	63,093,861	38,414,681	21,408,852	3,462,497	-	126,379,891
Charge for the year	17,147,525	1,602,594	712,787	156,228	-	19,619,134
At 31 December 2022	80,241,386	40,017,275	22,121,639	3,618,725	-	145,999,025
Net book value						
At 31 December 2022	828,140,909	3,281,721	800,699	337,571	-	832,560,900
At 31 December 2021	819,409,090	2,575,587	671,558	231,894	-	822,888,129

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

6 Property and equipment (continued)

The depreciation charge has been allocated as follows:

	2022 AED	2021 AED
Direct costs (Note 20)	17,147,525	16,605,799
General and administrative expenses (Note 21)	2,471,609	3,355,105
	<u>19,619,134</u>	<u>19,960,904</u>

* The buildings and properties category also consists of one building under development stated at fair value as at 31 December 2022 amounting to AED 295,000,000 (2021: AED 288,000,000). Please refer to Note 28 for capital commitments against this building under development.

Movement of buildings and properties under development stated at fair value is shown below:

	2022 AED	2021 AED
As at 1 January	288,000,000	253,942,500
Additions	33,093,141	35,107,844
Revaluation loss	(26,093,141)	(1,050,344)
	<u>295,000,000</u>	<u>288,000,000</u>

All buildings and properties valued by an independent valuer in accordance with valuation standards issued by the Royal Institute of Chartered Surveyors and International Valuation Standards as at 31 December 2022 and 2021. The valuation has been arrived at by using an income valuation approach for completed buildings and the residual value method for the buildings and properties under development.

The fair value of the buildings and properties as at 31 December 2022 provided by the valuer was AED 828,140,909 (2021: AED 819,409,090) which resulted in an increase in revaluation reserve by AED 16,675,979 during 2022 (2021: increase by AED 14,835,693). Please refer to Note 13 for more details.

All key assumptions used in the valuation, reflect market conditions as at the date of valuation, using transactional evidence in addition to general market knowledge of such properties in the local market (Note 4.3a).

At 31 December 2022, buildings and properties with carrying value of AED 793,140,909 (2021: AED 785,909,091) are mortgaged in favour of lenders against Ijarah Facility 1 (refer to Note 14 for more details on the loans).

The carrying value of the buildings and properties at 31 December 2022 under the cost model would have been AED 872,365,656 (2021 AED 888,335,042).

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

6 Property and equipment (continued)

** During the year ended 31 December 2022, a loss of AED 26,093,141 (2021: loss of AED 1,359,773) was charged to the consolidated statement of comprehensive income as the original carrying amount of the asset exceeded its fair value. During the same year, a gain of AED 16,675,979 (2021: gain of AED 14,835,693) was charged on the consolidated statement of other comprehensive income.

For the year ended 31 December 2022, 43% of the borrowing costs of Ijarah Facility 2 incurred has been capitalised in relation to the Group's property under development (Note 14).

7 Investment properties

During the year ended 31 December 2022, the fair value of the investment properties was based on an external independent valuer's report prepared in accordance with the valuation standards issued by the Royal Institute of Chartered Surveyors and International Valuation Standards. The future development costs as per consultants' report and management estimations were assessed and accrued to carrying amount in order to evaluate the change in the fair value. Management estimates that this fair valuation is reliable and has adopted the valuation conclusions which showed a loss in fair value recognised in the consolidated statement of comprehensive income of AED 636,257 (2021: AED 21,948,729).

Movement of total investment properties at fair value:

	2022 AED	2021 AED
As at 1 January	4,590,890,910	4,530,345,087
Additions from property under development	48,050,206	77,872,163
Transferred to property and equipment (Note 6)	-	(5,454,177)
Borrowings costs capitalised	17,054,233	10,076,566
Revaluation loss	<u>(636,257)</u>	<u>(21,948,729)</u>
	<u>4,655,359,092</u>	<u>4,590,890,910</u>

The breakdown of the investment properties at fair value is divided between investment properties in use and investment properties under development as follows:

Investment properties in use at fair value

Movement of investment properties in use at fair value is shown below:

	2022 AED	2021 AED
As at 1 January	3,665,833,410	3,665,833,410
Additions	805,237	1,343,496
Revaluation gain / (loss)	<u>33,662,945</u>	<u>(1,343,496)</u>
	<u>3,700,301,592</u>	<u>3,665,833,410</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)**

7 Investment properties (continued)

Investment properties under development at fair value

Movement of investment properties under development at fair value is shown below:

	2022 AED	2021 AED
As at 1 January	925,057,500	864,511,677
Additions	47,244,969	76,528,667
Transferred to property and equipment (Note 6)	-	(5,454,177)
Borrowings cost capitalised *	17,054,233	10,076,566
Revaluation loss	<u>(34,299,202)</u>	<u>(20,605,233)</u>
	<u>955,057,500</u>	<u>925,057,500</u>

Investment properties under developments comprise of Waterfront Towers project and Khalidiya Gateway plots “A” and “B”. Please refer to Note 28 for capital commitments against these properties under development. As at 31 December 2022, none of these properties under development have been completed and no transfers have been made into completed investment properties.

* As at 31 December 2022, 57% of the interest has been capitalised related to Ijarah Facility 2 (Note 14), which amounted to AED 17,054,233 (2021: AED 10,076,566).

Borrowing costs capitalised pertain to Ijarah Facility 2 for the construction of the Waterfront project. As of 31 December 2022, interest on these facilities have been fully capitalised.

Operating lease income from investment properties for the year amounted to AED 264,100,061 (2021: AED 256,813,062). Related direct expenses amounted to AED 30,518,916 (2021: AED 30,830,751).

At 31 December 2022, investment properties with carrying value of AED 2,818,000,000 (2021: AED 4,371,490,909) are mortgaged in favour of lenders against Ijarah Facility 1, Ijarah Facility 2, and Term Loan 2 (refer to Note 14 for more details on the loans).

As per the loan agreements, the Group shall not create or subsist any of its security interest over any of its assets, including its mortgaged properties.

Management has recognised an investment property in the consolidated statement of financial position which is in the name of the shareholders on the basis of a nominee agreement. Under the nominee agreement between the Group and the shareholders, the shareholders have assigned the beneficial interest in this property to the Group. Additionally, this property is mortgaged under Term Loan 1 (Note 14) in the name of the Group.

In relation to the Sukuk Certificates issuance, all rights, title, interests, benefits and entitlements in, of an investment property with carrying value of AED 616,600,000 are transferred to the Trustee with effect from the date of issuance (refer to Note 15 for more details on Sukuk).

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

7 Investment properties (continued)

The Group has recognised accrued operating lease income related to the rental of the above residential and commercial investment properties:

	2022 AED	2021 AED
Accrued operating lease income (Note 8)	10,293,718	10,975,206
Less: loss allowance	<u>(3,773,465)</u>	<u>(1,349,657)</u>
	<u>6,520,253</u>	<u>9,625,549</u>

The accrued operating lease income primarily relates to the Group's rights to consideration for lease rental services provided but not billed at the reporting date. The amount is transferred to receivables when the rights become unconditional. Accrued operating lease income decreased as the Group provided services that are not yet billed. The Group also recognised a loss allowance for accrued operating lease income in accordance with IFRS 9. See Note 8 for further information.

The Group has recognised the following unearned rental income to the rental of the above residential and commercial investment properties:

	2022 AED	2021 AED
Unearned rental income (Note 17)	<u>79,056,103</u>	<u>79,281,852</u>

The unearned rental income mainly relate to the advances received from customers in accordance with contract terms and conditions.

Investment properties with a carrying value of AED 3,700,301,592 (2021: AED 3,665,833,410) were fully completed and in use at the end of the reporting period. The properties are required to comply with the relevant health and safety and other environmental requirements, subject to ongoing self-certification and periodic inspections from independent oversight bodies, in order to continue in operation. Management considers that the Group's completed properties comply with substantially all the relevant requirements, and based on the Group's historical experience, all properties are expected to continue to be approved for ongoing use.

The properties under development require approval or permits from oversight bodies at various points in the development process, including approval or permits in respect of initial design, zoning, commissioning, compliance with environmental regulations and other matters. Based on the Group's historical experience with similar developments in similar locations, all relevant permits and approvals are expected to be obtained, but the completion date of the development may vary depending on, among other factors, the timeliness of obtaining approvals and any remedial action required by the Group.

The Group manages risks around the assets which it leases out to tenants by ensuring that vacancy rates are kept to a minimum and rentals are negotiated at optimal terms and conditions. The Group manages vacancy rates by adjusting rental rates according to market conditions. In addition, the Group manages the underlying operational condition of the assets to ensure that optimal rates can be obtained. These factors coupled together assist the Group in ensuring that the risks regarding the assets are managed appropriately.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

8 Trade and other receivables

	2022 AED	2021 AED
Trade receivables	48,592,094	50,309,845
Accrued operating lease income (Note 7)	10,293,718	10,975,206
Less: provision for impairment on trade receivables and accrued income	<u>(35,877,490)</u>	<u>(33,740,458)</u>
	23,008,322	27,544,593
Prepayments	20,230,763	1,072,287
Refundable deposits	1,864,352	1,570,547
Other receivables*	<u>18,711,899</u>	<u>29,194,930</u>
	<u>63,815,336</u>	<u>59,382,357</u>

* Other receivables primarily consist of VAT receivable balance of AED 16 million (2021: AED 25 million) pertaining to tax receivable on the capital expenditures incurred by the Group.

At 31 December 2022, the Group had a significant concentration of credit risk, with 1 customer representing 10% (2021: 1 customer accounting for 10%) of trade receivables and accrued operating lease income outstanding at that date. Management is confident that this concentration of credit risk will not result in any loss to the Group considering the credit history of this customer.

As of 31 December 2022, trade receivables and accrued operating lease income of AED 23,008,322 (2021: AED 27,544,593) were fully performing which the Group has not provided for, as there has not been a significant change in the credit quality and the amounts are considered recoverable.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued operating lease income.

To measure the expected credit losses, trade receivables and accrued operating lease income have been grouped based on shared credit risk characteristics and the days past due. The accrued operating lease income relate to renewed contracts but not billed have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the accrued operating lease income.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2022 or 1 January 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the Gross Domestic Product (GDP) and the unemployment rate of the UAE in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

8 Trade and other receivables (continued)

On that basis, the loss allowance as at 31 December 2022 was determined as follows for both trade receivables and accrued operating lease income:

	Total AED	Past due not impaired			
		1 – 90 days AED	91 -180 days AED	181 -365 days AED	More than 365 days AED
31 December 2022					
Expected credit loss rate		0.18%	9%	13%	90%
Estimated total gross carrying amount at default	58,885,812	12,973,694	2,091,260	5,044,599	38,776,259
Expected credit loss	(35,877,490)	(23,779)	(192,061)	(657,572)	(35,004,078)
	<u>23,008,322</u>	<u>12,949,915</u>	<u>1,899,199</u>	<u>4,387,027</u>	<u>3,772,181</u>
31 December 2021					
Expected credit loss rate		11%	52%	53%	83%
Estimated total gross carrying amount at default	61,285,051	20,307,651	2,350,677	5,699,323	32,927,400
Expected credit loss	(33,740,458)	(2,166,979)	(1,223,096)	(3,020,641)	(27,329,742)
	<u>27,544,593</u>	<u>18,140,672</u>	<u>1,127,581</u>	<u>2,678,682</u>	<u>5,597,658</u>

Trade receivables and accrued operating lease income are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 365 days past due.

Impairment losses on trade receivables and accrued operating lease income are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Movement in the provision for impairment of trade receivable:

	2022 AED	2021 AED
At 1 January	33,740,458	29,606,806
Add: Addition during the year	2,170,358	4,412,173
Less: Reversal during the year	(33,326)	(278,521)
At 31 December	<u>35,877,490</u>	<u>33,740,458</u>

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

9 Cash and cash equivalents, and bank deposits

	2022 AED	2021 AED
Cash and cash equivalents		
Cash on hand	243,143	493,595
Cash at banks	92,775,248	34,530,968
	<u>93,018,391</u>	<u>35,024,563</u>
Bank deposits		
Fixed deposit above 3 months	-	10,000,000

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise of:

	2022 AED	2021 AED
Cash and cash equivalents	93,018,391	35,024,563
Bank overdraft	(27,674,844)	(29,108,966)
Cash and cash equivalents (net of bank overdrafts)	<u>65,343,547</u>	<u>5,915,597</u>

Bank overdraft represents a credit facility with a limit of AED 35 million which was obtained by the Parent Company ("The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC") during the year ended 31 December 2014. The overdraft facility is at an applicable facility commission rate of 3.75% over 3 months EIBOR per annum.

10 Share capital

The share capital of the Group comprises 11,800,000 authorised, issued and fully paid shares of AED 1 each.

The share capital is allocated as follows:	Number of shares	% of ownership	Value AED
Sheikh Khalifa Bin Mohamed Bin Khalid Bin Sultan Alnehayan	1,700,000	15%	1,700,000
Sheikh Sultan Bin Mohd Bin Khalid Alnehayan	1,700,000	15%	1,700,000
Sheikh Hamdan Mohamed Khalid Alnehayan	1,700,000	15%	1,700,000
Sheikha Hamda Mohamed Khalifa Alnehayan	750,000	6%	750,000
Sheikha Shamma Mohammed Khalid Alnahayan	850,000	7%	850,000
Sheikha Rawdha Mohamed Khalid Alnahayan	850,000	7%	850,000
Sheikha Maryam Mohd Khaled Alnahayan	850,000	7%	850,000
Sheikha Salama Mohammed Khalid Alnahayan	850,000	7%	850,000
Sheikha Mouza Mohd K Al Nahayan	850,000	7%	850,000
Sheikha Shaikha Mohamed Khalid Sultan Al Nahyan	850,000	7%	850,000
Sheikha Maytha Mohd Khalid Alnahayan	850,000	7%	850,000
	<u>11,800,000</u>	<u>100%</u>	<u>11,800,000</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

11 Legal reserve

In accordance with the Articles of Association of the Group and in line with the provisions of Article 103 of UAE Federal Law No. 32 of 2021 ("Companies Law"), the Group entities are required to transfer annually to a statutory reserve account an amount equals to 10% of its net profit at each entity level, until such reserve reaches 50% of the respective entity's share capital.

12 General reserve

The general reserve represents the value of all asset net of its attached liabilities inherited in prior years by the shareholders from the estates of the late H.E. Sheikh Mohammed Bin Khalid Al Nahyan and the late H.E. Sheikha Mouza Bint Buti Bin Khalifa Al Kubeisi and transferred to the Department. This reserve is not available for distribution.

13 Revaluation reserve

	2022 AED	2021 AED
At 1 January	29,304,334	14,468,641
Revaluation of property and equipment (Note 6)	<u>16,675,979</u>	<u>14,835,693</u>
At 31 December	<u>45,980,313</u>	<u>29,304,334</u>

As at 31 December 2022 and 2021, the above revaluation reserve is not available for distribution to shareholders.

14 Bank borrowings

	2022 AED	2021 AED
At 1 January	2,265,065,012	2,144,902,138
Additions	61,073,000	112,929,000
Interest charged during the year	85,004,113	66,962,741
Repayment during the year	<u>(1,066,851,579)</u>	<u>(59,728,867)</u>
At 31 December	<u>1,344,290,546</u>	<u>2,265,065,012</u>
Current	202,322,773	131,646,575
Non-current	<u>1,141,967,773</u>	<u>2,133,418,437</u>
	<u>1,344,290,546</u>	<u>2,265,065,012</u>

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

14 Bank borrowings (continued)

The Group currently has borrowing arrangements with local banks that comprise of:

	Total	1 year or less AED	More than 1 year AED
At 31 December 2022			
Ijarah Facility 1	850,347,718	110,347,718	740,000,000
Ijarah Facility 2	412,090,229	71,593,054	340,497,175
Term Loan 1	81,852,599	20,382,001	61,470,598
	<u>1,344,290,546</u>	<u>202,322,773</u>	<u>1,141,967,773</u>
At 31 December 2021			
Ijarah Facility 1	1,382,057,872	32,057,872	1,350,000,000
Ijarah Facility 2	358,651,403	45,842,322	312,809,081
Term Loan 1	91,913,908	21,304,552	70,609,356
Term Loan 2	420,724,362	20,724,362	400,000,000
Term Loan 3	5,717,467	5,717,467	-
Term Loan 4	6,000,000	6,000,000	-
	<u>2,265,065,012</u>	<u>131,646,575</u>	<u>2,133,418,437</u>

Ijarah Facility 1: represents an Ijarah facility amounting to AED 1,350 million which was obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2017 and is repayable through 19 quarterly instalments with first instalment being on 31 March 2023 and amounting to AED 25,000,000. Final instalment is scheduled on 30 September 2027. The profit rate is 2.75% plus 3 months EIBOR. Subsequent to the year end, the Group had restructured the loan facilities and obtained final approval on the new agreements (refer to note 31).

Ijarah Facility 2: represents an Ijarah facility with a ceiling of AED 605 million which was obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2017 to construct the Waterfront Towers project repayable through 28 quarterly instalments with first instalment being on 30 September 2021 and final instalment is scheduled on 30 June 2028. The profit rate is 2.75% plus 3 months EIBOR. Interest on this facility has been fully capitalised into investment properties under development in Note 6 and Note 7. During the year, the Group had received a letter for temporary extension of the outstanding payable instalments.

Term loan 1: represents a loan amounting to AED 202 million which was obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2002 and is repayable through annual fixed instalments of AED 11,100,000 inclusive of interest.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

14 Bank borrowings (continued)

Term loan 2: represents a commercial facility loan obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2020. On 12 February 2020, the Parent Company entered into a new 2 year facility agreement with Abu Dhabi Commercial Bank for which the bank has taken over the Parent Company’s outstanding balance and accrued interest of a prior loan with Finance House (AED 33 million plus accrued interest) as well as the outstanding utilization and accrued interest of prior loans held by the Group (loans amounting to AED 191 million and AED 93 million, respectively). The total outstanding balances were combined and a new commercial facility loan with a ceiling of AED 420 million was obtained at a rate of 3 months EIBOR plus 2.75% per annum and is repayable through 8 quarterly instalments with the first instalment being on 31 March 2020. As of 31 December 2022, this commercial facility loan was fully settled.

Term loan 3: represents a Murabaha facility loan obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2020 on 26 October 2020. The loan is at a profit rate of 5.75% per annum and is repayable through annual 24 fixed instalments including interest rates starting from 21 January 2021. As of 31 December 2022, this facility loan was fully settled.

Term loan 4: represents a Murabaha term finance loan obtained by the Parent Company (“The Private Department of H.E Sheikh Mohammed Bin Khalid Al Nahyan LLC”) during the year ended 31 December 2017. The loan is at a fixed profit rate of 6.5% per annum and is repayable on 25 December 2022 in a bullet payment amounting to AED 7,950,000 including interest. As of 31 December 2022, this term finance loan was fully settled.

There were several financial covenants attached to the interest-bearing loans and Ijarah facilities. Please refer to Note 4.2 for more details.

15 Sukuk instruments

	2022 AED	2021 AED
At 1 January	-	-
Additions	1,101,300,000	-
Interest charged during the year	25,964,677	-
At 31 December	<u>1,127,264,677</u>	<u>-</u>
Current	25,964,677	-
Non-current	<u>1,101,300,000</u>	<u>-</u>
	<u>1,127,264,677</u>	<u>-</u>

On 23 September 2022, the Group listed a USD 300 million Islamic bonds sale in London’s stock exchange through PD Sukuk Ltd. (a Trustee of the certificates). The Trustee has been incorporated solely for the purpose of participating in the issuance of Certificates up to USD 1,000,000,000 trust certificates held in trust by MaplesFS Ltd. for Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC. The bonds are at a fixed profit rate of 8.75% distributed semi-annually on 23 March and 23 September in each year, with a scheduled dissolution date on 23 September 2025.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

15 Sukuk instruments (continued)

There were several financial covenants attached to the Sukuk. Please refer to Note 4.2 for more details.

16 Provision for employees' end of service benefits

	2022 AED	2021 AED
At 1 January	9,180,880	9,266,114
Charge for the year (Note 22)	1,222,679	1,012,798
Payments	<u>(1,607,955)</u>	<u>(1,098,032)</u>
At 31 December	<u>8,795,604</u>	<u>9,180,880</u>

Principal assumptions used in determining benefit obligations for the Group are shown below:

	2022	2021
Discount rate (%)	<u>0.77</u>	<u>0.77</u>
Salary increase rate (%)	<u>4.80</u>	<u>4.80</u>
Normal retirement age (years)	<u>60</u>	<u>60</u>

Management believes that no reasonably possible change in any of the above assumptions would cause a material change in the carrying value.

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

17 Trade and other payables

	2022 AED	2021 AED
Trade payables	25,150,869	10,813,863
Unearned rental income	79,056,103	79,281,852
Refundable deposits	10,056,404	10,299,362
Staff payables	11,410,063	7,775,794
Advances from clients	4,468,084	-
Accrued expenses	3,987,323	6,121,610
Other payables	<u>2,639,253</u>	<u>8,434,191</u>
	<u>136,768,099</u>	<u>122,726,672</u>

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

18 Related party balances and transactions

Related parties represent major shareholders, directors, key management personnel of the Group, and entities owned by the shareholders of the Group. All transactions with related parties are at arm's length.

Balances with related parties included in the consolidated statement of financial position are as follows:

	2022 AED	2021 AED
Due from related parties:		
Advance to shareholders*	133,065,924	-
Rotana affiliate companies	89,873	204,239
Rotana Hotel Management Corporation Corporation (operator of Al Khalidiya Palace Rayhaan Hotel)**	-	172,929
	<u>133,155,797</u>	<u>377,168</u>
Due to related parties – current:		
Square General Contracting Co LLC	13,799,665	42,546,662
Shareholders	760,618	322,973
Rotana Hotel Management Corporation (operator of Al Khalidiya Palace Rayhaan Hotel)**	290,425	358,320
Rotana affiliate hotels	26,262	2,114
Al Samadi Sweets	15,843	6,299
Al Khalidia Airconditioning & Refrigeration LLC	8,609	9,204
	<u>14,901,422</u>	<u>43,245,572</u>

During the year ended 31 December 2021, the Group declared and paid dividends of AED 11.88 per share amounting to AED 140,128,007.

* Advance to shareholders represents the amounts paid to shareholders on the purchase of plot No. 1 (land area: 3,836,636.69 sqm) located in Taweelah area, in Abu Dhabi, UAE. The Island is in the process of being transferred from the name of the shareholders to the Group.

** Rotana Hotel Management Corporation (“the Operator”) is the managing operator of Al Khalidiya Palace Rayhaan Hotel and the transactions disclosed relate to management fees and other related costs charged from/to the operator.

During the year ended 31 December 2022, a management incentive fee amounting to AED 1,454,533 (2021: AED 1,212,820) was paid to the Operator. In accordance with the terms of the Management Agreement, the Operator is entitled to base and incentive management fees.

The Operator is entitled to incentive management fee based on the Gross Operating Profit (“GOP”):

- 7.5% of GOP if the GOP of the property is below 35% of gross revenues;
or

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

18 Related party balances and transactions (continued)

- 8.5% of GOP if the GOP of the property is from 35% but below 45% gross revenues; or
- 9.5% of GOP if the GOP of the property is from and above 45% gross revenues.

Compensation of key management personnel

	2022 AED	2021 AED
Salaries and allowances	9,763,686	8,103,299
Other benefits	21,903,891	8,706,564
Number of key management personnel	4	2

19 Revenue

	2022 AED	2021 AED
Operating lease income	264,100,061	256,453,320
Room revenue	43,284,840	38,883,438
F&B revenue	19,300,081	11,405,545
Recreation revenue	2,430,820	4,055,817
Other revenue	2,328,010	2,382,762
	<u>331,443,812</u>	<u>313,180,882</u>

Disaggregation of revenue from contracts with customers

The Group derives revenue from performance obligations over time except for F&B revenue which is at a point in time.

20 Direct costs

	2022 AED	2021 AED
Depreciation expenses (Note 6)	17,147,525	16,605,799
Utilities expenses	16,882,575	16,963,626
Staff costs (Note 22)	13,305,796	10,643,037
F&B cost	6,368,322	3,617,110
Service costs	3,404,460	1,693,382
Maintenance expenses	3,004,677	2,526,136
Building works expenses	2,905,210	2,341,816
Cleaning expenses	1,870,420	1,968,847
Insurance expenses	1,453,124	1,368,239
Security expenses	6,655	2,367,593
Other expenses	5,447,635	4,588,300
	<u>71,796,399</u>	<u>64,683,885</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)**

21 General and administrative expenses

	2022 AED	2021 AED
Staff costs (Note 22)	38,318,692	30,663,108
Professional fees	22,019,241	5,506,407
Utility expenses	6,080,006	5,677,666
Depreciation expenses (Note 6)	2,471,609	3,355,105
Maintenance and repairs	1,988,240	1,783,991
Insurance expenses	1,782,556	1,312,346
Supplies	1,447,442	1,543,365
IT expenses	1,231,722	1,331,713
Bank charges	1,202,273	1,225,343
Legal expenses	933,703	564,957
Credit card commissions	763,546	558,505
Government fees	483,644	638,185
Communication expenses	175,539	253,076
Charity and donations*	92,350	208,300
Other	4,913,832	4,557,017
	<u>83,904,395</u>	<u>59,179,084</u>

* These amounts paid pertain to social contributions made within the United Arab Emirates for community service purposes.

22 Staff costs

	2022 AED	2021 AED
Salaries and allowances	34,077,878	32,228,872
End of service benefits (Note 16)	1,222,679	1,012,798
Other employees' benefits	17,700,738	9,245,832
	<u>53,001,295</u>	<u>42,487,502</u>

Staff costs are allocated as follows:

Direct costs (Note 20)	13,305,796	10,643,037
General and administrative expenses (Note 21)	38,318,692	30,663,108
Marketing & selling expenses (Note 23)	1,376,807	1,181,357
	<u>53,001,295</u>	<u>42,487,502</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

23 Marketing & selling expenses

	2022 AED	2021 AED
Commissions	2,850,644	1,535,404
Staff costs (Note 22)	1,376,807	1,181,357
Representation expenses	795,084	729,517
Franchise fees	736,160	619,276
Loyalty program	633,491	893,390
Media expenses	191,740	213,978
Others	45,570	88,267
	<u>6,629,496</u>	<u>5,261,189</u>

24 Finance cost

	2022 AED	2021 AED
Interest on loans	71,389,424	44,197,522
Early settlement fees	18,900,000	-
Interest on bank overdraft	2,795,644	1,079,895
	<u>93,085,068</u>	<u>45,277,417</u>

25 Derivative financial instruments

Derivative financial instruments consist of four interest rate swap arrangements entered with a counter-party bank for a notional amount that mirrors the draw down and repayment schedule of Ijara Term Loan 1 (please refer to Note 14). However, the Group does not apply hedge accounting in accordance with IFRS 9 and gains or losses on derivatives are recognised in the consolidated statement of comprehensive income in net change in fair value of financial instruments at FVPL.

As at 31 December 2022, the Company terminated all four interest rate swap arrangements entered with the counter-party bank and the notional amounts outstanding for all the derivative contracts as at 31 December 2022 were nil (31 December 2021: AED 1,350 million).

The movement in derivative financial instruments is as follows:

	2022 AED	2021 AED
At 1 January	(32,699,640)	(35,091,559)
Gain recognised during the year	38,206,140	2,391,919
Terminated during the year	(5,506,500)	-
At 31 December	<u>-</u>	<u>(32,699,640)</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

25 Derivative financial instruments (continued)

Derivative financial liabilities are allocated in the consolidated statement of financial position as follows:

	2022 AED	2021 AED
Current	-	32,699,640

26 Basic earnings per share

Basic earnings per share for the year are calculated by dividing profit for the year by the number of ordinary shares during the year. Please refer to Note 17 for details regarding dividend earning per share.

The following reflects the income and share data used in the earnings per share computations:

	2022	2021
Profit for the year attributable to the ordinary equity holders of the Group (AED)	85,196,363	117,591,879
Weighted average number of ordinary shares in issue	11,800,000	11,800,000
Basic earnings per share	7.22	9.97

27 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors (Chief Operating Decision Makers) in making strategic decisions.

The Board of Directors consider the business based on the following operating segments:

- UAE - Real estate: includes management of real estate, land purchase, sale and rental housing units.
- UAE - Hospitality: includes basic hotel services.

The operating segments derive their revenue primarily from operating lease income from lessees. All of the Group's business activities and operating segments are reported within the above segments.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit.

The segment information provided to the Board of Directors for the operating segments, (which also represent the reportable segments) for the years ended 31 December 2022 and 2021 is as follows:

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

27 Segmental information (continued)

Year ended 31 December 2022	UAE – Real Estate AED	UAE – Hospitality AED	Total AED
Revenue*	257,827,849	73,615,963	331,443,812
Direct costs	<u>(31,955,072)</u>	<u>(39,841,327)</u>	<u>(71,796,399)</u>
Gross profit	225,872,777	33,774,636	259,647,413
General and administrative expenses	(63,360,273)	(20,544,122)	(83,904,395)
Marketing and selling	-	(6,629,496)	(6,629,496)
Management incentive fee	-	(1,454,533)	(1,454,533)
Net impairment loss on financial assets	(2,163,068)	26,036	(2,137,032)
Unrealised loss on revaluation of investment properties	(636,257)	-	(636,257)
Unrealised loss on revaluation of property and equipment	(26,093,141)	-	(26,093,141)
Other income	78,244	-	78,244
Operating profit	<u>133,698,282</u>	<u>5,172,521</u>	<u>138,870,803</u>
Finance cost	(93,085,068)	-	(93,085,068)
Finance income	1,204,488	-	1,204,488
Changes in fair values of derivative financial instruments	38,206,140	-	38,206,140
Profit for the year	<u>80,023,842</u>	<u>5,172,521</u>	<u>85,196,363</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property and equipment	16,675,979	-	16,675,979
Total comprehensive income for the year	<u>96,699,821</u>	<u>5,172,521</u>	<u>101,872,342</u>

* Total revenue includes revenue from contracts with customers and rental income.

Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

27 Segmental information (continued)

Year ended 31 December 2021	UAE – Real Estate AED	UAE – Hospitality AED	Total AED
Revenue*	251,253,301	61,927,581	313,180,882
Direct costs	<u>(32,256,955)</u>	<u>(32,426,930)</u>	<u>(64,683,885)</u>
Gross profit	218,996,346	29,500,651	248,496,997
General and administrative expenses	(38,368,695)	(20,810,389)	(59,179,084)
Marketing and selling	-	(5,261,189)	(5,261,189)
Management incentive fee	-	(1,212,820)	(1,212,820)
Net impairment loss on financial assets	(4,173,028)	39,376	(4,133,652)
Unrealised loss on revaluation of investment properties	(21,948,729)	-	(21,948,729)
Unrealised loss on revaluation of property and equipment	(1,359,773)	-	(1,359,773)
Other income	105,518	-	105,518
Operating profit	<u>153,251,639</u>	<u>2,255,629</u>	<u>155,507,268</u>
Finance cost	(45,277,417)	-	(45,277,417)
Finance income	4,970,109	-	4,970,109
Changes in fair values of derivative financial instruments	2,391,919	-	2,391,919
Profit for the year	<u>115,336,250</u>	<u>2,255,629</u>	<u>117,591,879</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property and equipment	403,110	14,432,583	14,835,693
Total comprehensive income for the year	<u>115,739,360</u>	<u>16,688,212</u>	<u>132,427,572</u>

* Total revenue includes revenue from contracts with customers and rental income.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

27 Segmental information (continued)

The segment assets and liabilities were as follows:

	UAE – Real Estate AED	UAE – Hospitality AED	Elimination AED	Total AED
Year ended 31 December 2022				
Non-current assets	5,002,919,992	485,000,000	-	5,487,919,992
Current assets	<u>273,289,137</u>	<u>26,177,301</u>	<u>(7,780,423)</u>	<u>291,686,015</u>
	<u>5,276,209,129</u>	<u>511,177,301</u>	<u>(7,780,423)</u>	<u>5,779,606,007</u>
Liabilities	<u>2,641,298,314</u>	<u>28,316,109</u>	<u>(9,919,231)</u>	<u>2,659,695,192</u>
Year ended 31 December 2021				
Non-current assets	4,928,779,039	485,000,000	-	5,413,779,039
Current assets	<u>86,280,598</u>	<u>36,972,956</u>	<u>(16,967,378)</u>	<u>106,286,176</u>
	<u>5,015,059,637</u>	<u>521,972,956</u>	<u>(16,967,378)</u>	<u>5,520,065,215</u>
Liabilities	<u>2,482,021,164</u>	<u>20,546,521</u>	<u>(540,943)</u>	<u>2,502,026,742</u>

The Group operates from its base in the United Arab Emirates and accordingly no further geographical analysis of revenues, profit, fair value gains, assets and liabilities is given.

28 Contingencies and commitments

	2022 AED	2021 AED
Letters of guarantee	<u>11,800,000</u>	<u>11,800,000</u>

As at 31 December 2022, the Group has capital commitments of AED 193 million (2021: AED 230 million) towards construction of investment properties and buildings and properties under property and equipment (Note 6 and 7), in addition to a commitment to the shareholders for the purchase of Al Taweelah Island for a remaining consideration of AED 466,934,076.

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

29 Financial instruments by category

	2022 AED	2021 AED
Financial assets at amortised cost		
Due from related parties	133,155,797	377,168
Trade and other receivables*	43,584,573	58,310,070
Cash and bank balances	93,018,391	45,024,563
	<u>269,758,761</u>	<u>103,711,801</u>
Financial liabilities at amortised cost		
Borrowings	1,344,290,546	2,265,065,012
Sukuk Instruments	1,127,264,677	-
Due to related parties	14,901,422	43,245,572
Trade and other payables*	57,711,996	43,444,820
	<u>2,544,168,641</u>	<u>2,351,755,404</u>
Derivative financial instruments:		
Derivative financial liabilities	-	32,699,640
	<u>2,544,168,641</u>	<u>2,384,455,044</u>

* For the purpose of financial instruments disclosure, non-financial assets amounting to AED 20,230,763 (2021: AED 1,072,287) have been excluded from trade and other receivables and non-financial liabilities amounting to AED 79,056,103 (2021: AED 79,281,852) have been excluded from trade and other payables.

30 Net debt reconciliation

The sections sets out an analysis of net debt and the movements in net debt for the year ended 31 December 2022 and 2021:

	2022 AED	2021 AED
Cash and cash equivalents, and bank deposits	93,018,391	45,024,563
Bank borrowings	(1,344,290,546)	(2,265,065,012)
Sukuk Instruments	(1,127,264,677)	-
Net debt	<u>(2,378,536,832)</u>	<u>(2,220,040,449)</u>
Cash and cash equivalents, and bank deposits	93,018,391	45,024,563
Gross debt – variable interest rates	(1,262,437,947)	(2,161,433,637)
Gross debt – fixed interest rates	(1,209,117,276)	(103,631,375)
Net debt	<u>(2,378,536,832)</u>	<u>(2,220,040,449)</u>

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

30 Net debt reconciliation (continued)

	Cash and cash equivalents, and bank deposits AED	Bank borrowings AED	Sukuk instruments AED	Total AED
Net debt as at 1 January 2021	42,863,920	(2,144,902,138)	-	(2,102,038,218)
Additions/interest	-	(112,929,000)	-	(112,929,000)
Cash flows	2,160,643	(7,233,874)	-	(5,073,231)
Net debt as at 31 December 2021	<u>45,024,563</u>	<u>(2,265,065,012)</u>	<u>-</u>	<u>(2,220,040,449)</u>
Additions/interest	-	(61,073,000)	(1,127,264,677)	(1,188,337,677)
Cash flows	47,993,828	981,847,466	-	1,029,841,294
Net debt as at 31 December 2022	<u>93,018,391</u>	<u>(1,344,290,546)</u>	<u>(1,127,264,677)</u>	<u>(2,378,536,832)</u>

31 Subsequent events

a) *Loan restructuring*

The Group entered into a facility restructuring agreement effective on the approval date being 28 February 2023, which modifies Ijarah Facility I and Ijarah Facility II into Facility A commitment and Facility B commitment, respectively. In addition to the modification of repayment due dates for the due borrowings with the first principal payment being on 31 March 2026 and the first interest payment date being 31 March 2023 with the final settlement of the loan being on 31 March 2033 based on the agreed installments. The profit rate is 2.50% per annum plus 3 months EIBOR for Facility A commitment and 4% per annum plus 3 months EIBOR for Facility B commitment.

Under the terms of the above facility agreement for Facility A commitment and Facility B commitment, the Group would be required to comply with below financial covenants:

- Loan to Value (“LTV”) ratio at no time shall exceed 60% total outstanding facilities including total fair value of derivative liabilities as a percentage of the total asset value mortgaged under the agreement should not to exceed 60% LTV.
- Debt Service Coverage Ratio (“DSCR”) should not fall less than 1.10x measured quarterly on a rolling annual basis.

b) *Sukuk Instruments*

On 2 January 2023, the Group issued USD 50 million Trust Certificates through PD Sukuk Ltd.. The bonds are to be consolidated and form a single series with the existing USD 300 million Trust Certificates due 2025 issued on 23 September 2022 under the USD 1,000,000,000 Trust Certificate Issuance Programme.

**Notes to the consolidated financial statements
for the year ended 31 December 2022** (continued)

31 Subsequent events (continued)

c) Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023 (Note 1).