EMIRATES REIT (CEIC) LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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REIT Manager's report

The Directors present their report for the year ended 31 December 2018.

Share capital

Emirates REIT (CEIC) Limited, the "REIT" or "Emirates REIT", is a closed-ended Shari'a compliant investment company incorporated in DIFC, registered by the DFSA as a Domestic Public Fund with license number C000012. It operates under the laws and regulations of the DIFC and DFSA, and in accordance with the principles of Shari'a. At 31 December 2018, the REIT's issued share capital comprised a total of 299,620,541 ordinary shares with a market value of USD 0.93 each. The REIT has one class of ordinary shares. All shares rank equally and are fully paid. No person holds shares carrying special rights with regards to control of the company. There are no restrictions on the size of a holding.

REIT Manager

Emirates REIT is managed by Equitativa (Dubai) Limited ("Equitativa", the "REIT Manager"), a limited company incorporated in DIFC and regulated by the DFSA since 2010. Equitativa is part of a group of companies that specializes in creating and managing innovative financial products in Emerging Markets.

Investment objective

Emirates REIT's key investment objective is to generate stable Shari'a compliant dividend distributions to shareholders, long-term rental growth and capital appreciation.

Investment policy

The type of investments which can be undertaken by the REIT currently include investments in real property, property related assets, shares or units in another property fund and up to a maximum of 40% in cash, government or public securities.

The REIT has in place a strict process for any acquisition or disposal of assets, including but not limited to the consent of the Investment Board and the Shari'a Supervisory Board. In case of a Related Party Transaction, the Oversight Board will also provide its consent.

Special decrees

In February 2013, the REIT was granted a Ruler's Decree which allowed the REIT to invest, through its onshore Dubai Branch, in properties in onshore Dubai. In October 2016, the Equitativa group was granted an Emiri Decree by the Ruler of the Emirate of Ras Al Khaimah, allowing any REIT managed by the group to invest in properties onshore in Ras Al Khaimah.

Management strategy

In order to achieve its objectives, the REIT has adopted the following key strategies:

Disciplined Acquisition Strategy

The REIT will continue to pursue acquisitions with the aim of improving income stability and overall returns. Since the incorporation of the REIT, Equitativa's team has evaluated over 1,000 investment opportunities thereby ensuring their knowledge of the market is comprehensive and allows timely reactions to changes in market conditions.

REIT Manager's report (continued)

Management strategy (continued)

Active Asset Management Strategy

The Portfolio of the REIT is actively managed, with the aim of delivering strong returns to the Shareholders. Active management is focused on enhancing rental revenues and improving operational efficiencies which in turn may contribute to enhanced market valuations. Equitativa works closely with the property managers appointed to the buildings to optimise the REIT's portfolio.

Equitativa applies the following key operating and management principles:
- Monitor the performance of the properties
- Optimise the net leasable area of the properties where possible
- Establishing close relationships and proactively manage leases
- Increase rental rates and property yields
- Enhance the overall operating efficiency of the Portfolio

Risk profile

The REIT's risk appetite is conservative and is not expected to increase as a result of any projected strategic changes in the foreseeable future. To maintain a strong financial position, the REIT seeks to adopt a prudent capital and financial management strategy. This ensures continuous access to funding while maintaining stable dividend distributions and achieving steady growth in Net Asset Value per Share. The REIT's continued performance is subject to, amongst other things, the conditions of the property market in the UAE, which can affect both the value and the rental income of properties in the portfolio. Any deterioration in the property market could result in declines in rental incomes, occupancy and value of the properties. It may also weaken the REIT's ability to obtain financing for new investments. These factors may have a material adverse effect on the REIT's financial condition, business, prospects and results of operations. The REIT will operate within the parameters defined by its Boards and as guided by the Shareholders, at all times conforming to the investment policy.

Risk management strategy

The key pillars for the Capital and Risk Management Strategy include:

- Managing the risks associated with the properties by balancing the portfolio and focusing on acquiring properties of best fit with attractive lease terms and strong covenants
- Using Shari'a compliant debt financing as an attempt to provide additional capital, improving Shareholder returns over the long term (where such Shari'a debt financing is appropriate) and ensuring that the gearing does not exceed 50% of the Gross Asset Value
- Continually revisiting lines of credit and assessing a variety of possible financing structures
- Actively considering opportunities to raise funds through various means, including but not limited to, the issue of new Shares.

Portfolio risk

The portfolio has a well-balanced risk profile.Asset classes are diversified and leased over long periods.
The Portfolio has a relatively low and well balanced risk profile benefiting from diversification across asset classes and long-term leases with a weighted average lease term of 7.8 years as at 31 December 2018. Notably, only 21% of the leases are expiring in the next three years (7% only within one year).

REIT Manager's report (continued)

Portfolio risk (continued)

7% in 2019
8% in 2020
6% in 2021
5% in 2022
5% in 2023
69% in 2024 ++

Shareholding

The maximum limit of 49% of non-GCC ownership is monitored by both Equitativa and Nasdaq Dubai. Public notification via the regulatory announcement platform will be made if the non-GCC shareholding nears 49%. At 31 December 2018, the non-GCC shareholding was just over 30%. As at 31 December 2018, the following shareholders held 5% or more of the REIT's issued share capital:

	Issued Share capital %
Dubai Islamic Bank PJSC	15.70%
Vintage Bullion	11.70%
Dubai Properties Group LLC	9.90%

Related parties

At the 2018 AGM, the shareholders authorised the REIT (and Equitativa on behalf of the REIT) to enter into transactions with Related Parties, pursuant to the DFSA CIR Rules. At the Extraordinary General Meeting in November 2018, the Shareholders further approved entering into Related Party Transactions in respect to a Secured Financing Facility from Dubai Islamic Bank. During the Extraordinary General Meeting on 26 November 2018, the shareholders approved and authorised the REIT Manager on behalf of the REIT to enter into a Related Party Transaction in respect to secured financing facility with DIB PJSC. The facility was for a principal amount of up to AED 500,000,000 with a tenure of 7 years and margin of 2.95%.

2018 Events

Acquisitions

On 13 May 2018 the REIT acquired a new leasehold property, a school in Al Qouz First, Lycee Francais Jean Mermoz. On 17 December 2018 the REIT acquired three additional occupied and fully fitted out office floors in Index Tower.

Financing Facility

The REIT obtained two new borrowing facilities from Ajman Bank and DIB with facilities amounting to USD 26.4m and USD 95.3m respectively with the funds being mainly used to acquire the new assets.

Results and Dividends

The Results for the year ended 31 December 2018 are stated in the Consolidated Statement of Comprehensive Income. An interim dividend relating to 2018 of USD 0.04 per ordinary share was paid in January 2019. The Directors will recommend a final dividend in respect of the year ended 31 December 2018 with the announcement of the 2019 Annual General Meeting. If authorised at the 2019 AGM, the dividend will be paid on or before 30 June 2019.

REIT Manager's report (continued)

Auditors

PricewaterhouseCoopers (Limited) were reappointed as auditor at the 2018 AGM, until closing of the 2019 AGM.

Purchase of own shares

At the 2018 AGM, the REIT was allowed to extend the authority to make one or more market purchases of its own shares in accordance with the rules and conditions of the DFSA and Nasdaq Dubai. This authority will expire at the conclusion of the 2019 AGM and a resolution will be proposed to seek further authority until the closure of the next AGM. No ordinary shares were purchased under this authority during 2018 or to date.

2019 Annual General Meeting

The 2019 AGM will be held in June 2019 and will be called with not less than 21 days' notice. The resolutions proposed for approval will be set out in the Notice of Meeting, together with explanatory notes.

Post event

Mr. Abdul Wahab Al-Halabi was appointed as Chief Financial Officer.

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Sylvain Vieujot
Executive Deputy Chairman

18 April 2019

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Emirates REIT (CEIC) Limited (the "REIT") and its subsidiary (together, the "Group") as at 31 December 2018, and of 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 balance sheet as at 31 December 2018;
- 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 a summary of significant accounting policies.

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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Dubai Financial Services Authority (the "DFSA") 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.

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PricewaterhouseCoopers Limited is registered with the Dubai Financial Services Authority

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited (continued)

Our audit approach

Overview

Key audit matter	Fair valuation of investment property

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 REIT's Manager 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 matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
Fair valuation of investment property (refer to Note 5) The Group owns a portfolio of investment properties, comprising commercial and retail buildings, schools and car parking spaces located in Dubai, United Arab Emirates. Investment properties are those that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group.	We obtained Equitativa (Dubai) Limited's (the "REIT Manager") calculations of investment properties' values based on external valuation reports and tested the accuracy of the posting of the related revaluation gain to the consolidated financial statements, and performed the following:

pwc

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited (continued)

Our audit approach (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Fair valuation of investment property (refer to Note 5) (continued) In accordance with the Group's accounting policy, investment properties are measured at their fair values, reflecting market conditions at the date of reporting. Gains or losses arising from changes in the fair values of investment properties each year are included in that year's consolidated statement of comprehensive income. As at 31 December 2018, the combined fair value of the Group's investment properties was USD 940 million (31 December 2017: USD 860 million) making it the most significant asset on the consolidated balance sheet. A revaluation gain for the year ended 31 December 2018 was recognised in the consolidated statement of comprehensive income amounting to USD 11 million (31 December 2017: USD 38 million). On a quarterly basis, the REIT Manager engages independent certified property valuers to perform a formal valuation of the REIT's investment properties on an open market basis. Each property is valued separately. The determined fair value of each investment property is most sensitive to its equivalent yield, estimated rental value and stabilised occupancy rates. The underlying assumptions used to determine the fair value of investment properties and sensitivity analysis are further explained in Note 4. We have focused on this area because of the complexities and uncertainties inherent in the determination of fair values (including the use of estimates) and the significant impact any changes in the individual property fair values, or errors in their computation, could have on the Group's reported consolidated balance sheet and financial performance.	- We reconciled the investment property value on the consolidated balance sheet to the external valuation reports. - We tested the accuracy of the net gain on investment properties by recalculating the difference in fair values of individual investment properties between 31 December 2017 and 31 December 2018. - We involved our own, in-house property valuation experts to assess the methodologies used by the Group's external valuers and the appropriateness of the underlying assumptions by performing the following procedures: - Reviewed the methodology applied by the external valuers to ensure it is in line with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards; - Assessed the reasonableness of assumed rents, comparable sales, stabilised occupancy rates and property operating expenses and compared them against market evidence and the properties' actual performance; and - Assessed the capitalisation rates and yields to ensure they are appropriate and in line with current market conditions. - Evaluated the external valuers' independence, experience and reputation in the property valuation field; and - We also focused on the adequacy of the Group's disclosures in Note 4 to the consolidated financial statements about those assumptions to which the outcome of the fair valuation is most sensitive, that is, those that have the most significant effect on the determination of the valuation of the Group's investment properties.

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited (continued)

Other information

The REIT Manager is responsible for the other information. The other information comprises the REIT Manager's 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, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 that 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The REIT Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in accordance with the applicable regulatory requirements of the DFSA, and for such internal control as the REIT Manager 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, the REIT Manager 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 the REIT Manager 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.

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited (continued)

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

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 the REIT Manager.
- Conclude on the appropriateness of the REIT Manager'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, related safeguards.

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

Independent auditor's report to the shareholders of Emirates REIT (CEIC) Limited (continued)

Report on other legal and regulatory requirements

As required by the applicable provisions of the DFSA Rulebook, we report that:

i) the consolidated financial statements have been properly prepared in accordance with the applicable requirements of the DFSA;

ii) the Group has maintained proper books of accounts and the consolidated financial statements are in agreement therewith;

iii) we have obtained all the information and explanations which we considered necessary for the purposes of our audit; and

iv) the financial information included in the report of the REIT manager is consistent with the consolidated financial statements of the Group.

PricewaterhouseCoopers
Dubai, United Arab Emirates

Audit Principal - Mohamed ElBorno
18 April 2019

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 USD'000	2017 USD'000
ASSETS			
Non-current assets			
Investment property	5	939,936	859,573
Trade and other receivables	6	19,809	13,404
		959,745	872,977
Current assets			
Trade and other receivables	6	11,770	7,894
Cash and cash equivalents	7	38,175	67,861
		49,945	75,755
Total assets		1,009,690	948,732
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	299,621	299,621
Share premium	8	59,393	59,393
Retained earnings		160,990	162,634
Total equity		520,004	521,648
LIABILITIES			
Non-current liabilities			
Sukuk financing instrument	9	397,710	397,344
Islamic financing	10	56,968	-
		454,678	397,344
Current liabilities			
Islamic financing	10	8,952	-
Trade and other payables	11	26,056	29,740
		35,008	29,740
Total liabilities		489,686	427,084
Total equity and liabilities		1,009,690	948,732
Net asset value (USD)		520,004,000	521,647,513
Number of shares		299,620,541	299,620,541
Net asset value USD per share		1.74	1.74

These consolidated financial statements were approved by the Board of Directors of Equitativa (Dubai) Limited as the sole director of the REIT on 18 April 2019 and signed on its behalf by:

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Sylvain Vieujot
Executive Deputy Chairman

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Abdul Wahab Al-Halabi
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December	
		2018	2017
	Note	USD'000	USD'000
Rental income		61,333	53,964
Service fee income		7,883	6,439
Other property income		703	221
		69,919	60,624
Property operating expenses		(16,704)	(13,903)
		53,215	46,721
Net unrealised gain on revaluation of investment property	5	11,038	38,038
Net property income		64,253	84,759
Expenses			
Management fee	14	(14,508)	(12,973)
Performance fee	14	(698)	(1,615)
Board fees		(338)	(338)
Allowance for expected credit loss	6	(3,259)	(75)
Other expenses		(1,845)	(1,247)
Operating profit		43,605	68,511
Finance costs	15	(21,458)	(16,478)
Finance income	15	178	165
Finance costs - net		(21,280)	(16,313)
Profit and total comprehensive income for the year		22,325	52,198
Earnings per share			
Basic and diluted earnings per share (USD)	16	0.075	0.170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Retained earnings	Total
		USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2017		299,621	59,393	134,405	493,419
Comprehensive income					
Profit and total comprehensive income for the year		-	-	52,198	52,198
Transaction with shareholders					
Cash dividends	13	-	-	(23,969)	(23,969)
Balance at 31 December 2017		299,621	59,393	162,634	521,648
Balance at 1 January 2018		299,621	59,393	162,634	521,648
Comprehensive income					
Profit and total comprehensive income for the year		-	-	22,325	22,325
Transaction with shareholders					
Cash dividends	13	-	-	(23,969)	(23,969)
Balance at 31 December 2018		299,621	59,393	160,990	520,004

The notes on pages 15 to 50 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended 31 December 2018 USD'000	2017 USD'000
Operating activities			
Profit for the year		22,325	52,198
Adjustments for:			
Net unrealised gain on revaluation of investment property	5	(11,038)	(38,038)
Finance costs	15	21,458	16,478
Finance income	15	(178)	(165)
Allowance for expected credit losses	6	3,259	75
Operating cash flows before changes in working capital		35,826	30,548
Changes in working capital:			
Trade and other receivables		(13,539)	(6,181)
Trade and other payables		(3,681)	2,483
Net cash generated from operating activities		18,606	26,850
Investing activities			
Additions to investment property		(69,325)	(65,649)
Finance income received		178	165
Net cash used in investing activities		(69,147)	(65,484)
Financing activities			
Proceeds from sukuk financing instruments issued	9	-	397,344
Proceeds from Islamic financing received	10	65,920	72,556
Repayment of Islamic financing	10	-	(388,340)
Cash dividends paid to shareholders	13	(23,969)	(23,969)
Finance costs paid		(21,096)	(15,669)
Net cash generated from financing activities		20,855	41,922
Net (decrease)/ increase in cash and cash equivalents		(29,686)	3,288
Cash and cash equivalents at the beginning of the year		67,861	64,573
Cash and cash equivalents at the end of the year	7	38,175	67,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

Emirates REIT (CEIC) Limited (the "REIT") is a closed ended domestic, public Islamic fund set up for the purpose of investing in Real Property in a Shari'a compliant manner under the provisions of its Articles of Association and the rules and regulations of the Dubai Financial Services Authority ("DFSA") and the Dubai International Financial Centre ("DIFC"), including the DIFC Law No. 2 of 2010 and the Collective Investment Rules contained within the DFSA Rulebooks and operates as an Islamic fund in accordance with such provisions, laws and rules.

The REIT was established on 28 November 2010 by Equitativa (Dubai) Limited (the "REIT Manager"), a company limited by shares, duly registered in the DIFC under commercial registration number CL0997, and having its registered office at Level 23, Index Tower, Dubai International Financial Centre, Dubai, UAE. The REIT Manager was appointed by the REIT to undertake the management of the REIT.

The REIT's activities include acquisition of properties which are rented out. The REIT receives rental revenues from the properties and distributes the income generated to shareholders through dividends.

The REIT's shares were admitted to the official list maintained by the DFSA and to trading on NASDAQ Dubai on 8 April 2014 following the REIT's Initial Public Offering ("IPO").

The REIT's business activities are subject to the supervision of a Shari'a Supervisory Board consisting of three independent members appointed by the REIT Manager who review the REIT's compliance with general Shari'a principles, specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the REIT to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

Emirates REIT Sukuk Limited, a structured entity (the "SE"), is an exempted company with limited liability incorporated on 23 October 2017 under the laws of the Cayman Islands with registered number 328401 with its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.

Ownership of SE

The authorised share capital of the SE is USD 50,000 consisting of 50,000 ordinary shares of USD 1.00 each, of which 250 of the Trustee's shares have been fully-paid and issued. The SE's entire share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a share declaration of trust dated 21 November 2017 (the Share Declaration of Trust).

The consolidated financial statements for the year ended 31 December 2018 comprise the REIT and its SE (together referred to as "the Group"). Considering the purpose and design of the SE, the financial statements of the REIT consolidate the SE in accordance with IFRS 10.

These consolidated financial statements have been approved by the REIT Manager as the sole director of the REIT on 18 April 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF 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.

2.1 Basis of preparation

(a) 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 IFRS Interpretations Committee (IFR IC), Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board and in accordance with the applicable regulatory requirements of the DFSA.

(b) Consolidated statement of income and consolidated cash flow statement

The Group has elected to present a single consolidated statement of comprehensive income and presents its expenses by nature.

The Group reports cash flows from operating activities using the indirect method. Finance income received is presented within investing cash flows; finance expense paid is presented within financing cash flows. The acquisition of investment property is disclosed as cash flows from investing activities because this most appropriately reflects the Group's business activities.

(c) Preparation of the consolidated financial statements

The consolidated financial statements have been prepared on a going concern basis, applying a historical cost convention, except for the measurement of investment property at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the REIT Manager to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. The REIT Manager believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The REIT Manager, as the sole director of the REIT, has made an assessment of the Group's ability to continue as a going concern. The REIT Manager is not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2.1.1 Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations adopted by the Group

- IFRS 9, 'Financial instruments' (effective 1 January 2018); and
- IFRS 15, 'Revenue from contracts with customers' (effective l January 2018).

The impact of the adoption of these standards and the new accounting policies are analysed and disclosed overleaf:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

(a) New standards, amendments and interpretations adopted by the Group (continued)

i) IFRS 9 - Financial instruments (continued)

The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Balance Sheet amounts on the date of initial application, i.e. 31 December 2018, with no restatement of comparative periods. The Group had revisited its impairment methodology under IFRS 9 and the impact of the change in impairment methodology on the Group's opening retained earnings and equity is immaterial.

The following table presents the classifications and carrying amounts of the Group's financial assets and financial liabilities as previously established in accordance with IAS 39 as at 31 December 2017 as well as new classifications and new carrying amounts in accordance with IFRS 9 as at 1 January 2018, where applicable:

	As at December 31 2017 Carrying Value under IAS 39	As at January 1 2018 Carrying Value under IFRS 9	Measurement under IAS 39	Measurement under IFRS 9
Financial Assets				
Cash and cash equivalents	67,861	67,861	Amortised Cost	Amortised Cost
Trade and other receivables (excluding prepayments and lease incentive asset)	4,166	4,166	Amortised Cost	Amortised Cost
	72,027	72,027		
Financial Liabilities				
Trade and other payables (excluding advances received)	13,729	13,729	Amortised Cost	Amortised Cost
Sukuk financing instrument	400,000	400,000	Amortised Cost	Amortised Cost
Islamic financing	102,500	102,500	Amortised Cost	Amortised Cost
	516,229	516,229		

ii) IFRS 15 - Revenue from contracts with the customers

IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new accounting policies are set out in sub notes below.

The Group has adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that the comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

ii) IFRS 15 - Revenue from contracts with the customers (continued)

There is no impact on Group's consolidated financial statements due to the application of IFRS 15, as the Group's main source of revenue is rental income earned from its investment properties, which is excluded from the scope of IFRS 15. Further, the impact on service income and other revenue is not significant.

There are no other IFRSs or IFRS IC interpretations that are effective and would be expected to have a material impact on the Group.

(b) New and amended standards issued but not effective for the financial year beginning 1 January 2018 and not early adopted:

iii) IFRS 16 - Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The REIT will apply the standard from its mandatory adoption date of 1 January 2019. The REIT intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The REIT Manager is still assessing the impact of this standard on the Group's consolidated financial statements.

There are no other standards or IFRS IC interpretations that are not yet effective and that would be expected to have a material impact on the REIT in the current or future reporting periods and on foreseeable future transactions.

2.2 Basis for consolidation

(a) Subsidiaries

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

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis for consolidation (continued)

(a) Subsidiaries (continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Segment reporting

For management reporting purposes, the Group is organised into one operating segment.

2.4 Foreign currency translation

(a) Functional and presentation currency

The functional currency of the Group is UAE Dirhams ("AED"). The presentation currency of the consolidated financial statements of the Group is USD translated at a rate of AED 3.673 to USD 1. The translation rate has remained constant throughout the current and previous years.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised within profit and loss in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

2.5 Investment Property

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

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Investment property under construction or re-development is measured at fair value if the fair value is considered to be reliably determinable. Investment property under construction or re-development for which the fair value cannot be determined reliably, but for which the REIT Manager expects that the fair value of the property will be reliably determinable when construction is completed, is 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 discounted cash flow projections. Valuations are performed 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.

Gains or losses arising from changes in the fair values of investment property are included in profit or loss from the consolidated statement of comprehensive income in the period in which they arise.

In order to evaluate whether the fair value of an investment property under construction or re-development can be determined reliably, the REIT Manager considers the following factors, among others:

- The provisions of the construction contract;
- The stage of completion;
- Whether the project/property is standard (typical for the market) or non-standard;
- The level of reliability of cash inflows after completion;
- The development risk specific to the property;
- Past experience with similar constructions; and
- Status of construction permits.

The fair value of investment property reflects, among other things, income from similar assets at their current highest and best use and assumptions about income from future operations in the light of current market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Investment Property (continued)

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure 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. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised within profit and loss in the consolidated statement of comprehensive income in the period of derecognition.

2.6 Leases

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

(a) Group as a lessee

Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

(b) Group as a lessor

Leases in which the Group do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Refer to Note 2.15 for accounting policy on recognition of rental income.

2.7 Financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets as at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows except for financial assets which are considered as equity instrument.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at Fair Value through Profit or Loss ("FVPL"). Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to the REIT Manager, how risks are assessed and managed and how the REIT Manager is compensated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(i) Classification (continued)

Solely Payments of Principal and Profit (“SPPI”): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments’ cash flows represent SPPI.

In making this assessment, the Group considers whether contractual cash flows present a nature consistent with a basic lending arrangement, i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

(ii) Initial recognition and measurement

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial assets, including trade receivables, at its fair value plus, in the case of a financial asset not at Fair Value through Profit or Loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an Expected Credit Loss (ECL) allowance is recognized for financial assets measured at amortised cost and at Fair Value through Other Comprehensive Income (“FVOCI”), which results in accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realized through settlement.

(iii) Subsequent Measurement

Debt Instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(iii) Subsequent Measurement (continued)

Debt Instruments (continued)

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Profit income from these financial assets, if any, is included in finance income using the effective profit rate method.

- *Fair value through other comprehensive income (FVOCI):* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income, if any and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Profit income, if any, from these financial assets is included in finance income using the effective profit rate method.

- *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/ (losses) in the year in which it arises. Profit income, if any, from these financial assets is included in the finance income.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk and is computed based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

As rent and service income receivables held by the Group have short credit period, i.e. tenor less than or equal to 12 months and does not comprise significant financing component, the Group applies simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized for receivables.

We understand that accrued income pertains to lease incentive assets and is therefore not subject to IFRS 9 for impairment.

For all other receivables, at the end of each year the Group applies a three stage impairment approach to measure the expected credit losses (ECL) on all debt instruments carried at amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(iv) Impairment (continued)

The ECL three stage impairment is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e., recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance for credit losses equal to lifetime expected losses continues to be recorded or the financial asset is written off. The profit income, if any, is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Significant increase in credit risk:

In assessing whether the credit risk on its financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument as at the reporting date with the probability of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate.

Definition of Default

The definition of default used by the Group to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Group considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 180 days past due.

Write-off policy:

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, and all the efforts for collection of the receivables are exhausted. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(iv) Impairment (continued)

Measurement and recognition of expected credit losses:

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

ECLs for all financial instruments are recognized in other expenses in the Statement of Comprehensive Income. In the case of debt instruments measured at amortised cost, they are presented net of the related allowance for expected credit loss on the Balance Sheet.

(v) Derecognition

Financial Assets:

Financial assets (or, where applicable a part of a financial asset) are derecognized 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:
- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial liability not classified as fair value through profit or loss, at its fair value minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial liability. Transactions costs of financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

The Group classifies all financial liabilities as subsequently measured at amortised cost, using effective profit rate method, except for those instruments which are carried at fair value through profit or loss.

The Group derecognizes financial liabilities when the obligation is discharged, cancelled or expires. Any difference between carrying value of financial liability extinguished and the consideration paid is recognized in statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(v) Derecognition (continued)

Offsetting Financial Instruments

Financial assets and liabilities were offset and the net amount reported in the consolidated balance sheet when there was a legally enforceable right to offset the recognized amounts and there was an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial Assets Measured at Fair Value

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets – accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with Group's previous accounting policy, as stated below.

(a) Classification

The Group currently classifies its financial assets as 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. The REIT Manager determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables comprise of 'trade and other receivables' (Note 6) and 'cash and cash equivalents' (Note 7) in the consolidated balance sheet.

(b) Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective profit rate method.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(d) Impairment of financial assets

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

Financial assets – accounting policies applied until 31 December 2017 (continued)

(d) Impairment of financial assets (continued)

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

If, in a subsequent period, the amount of the impairment 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), the reversal of the previously recognised impairment loss is recognised within profit and loss in the consolidated statement of comprehensive income.

2.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purpose of the consolidate statement of cash flows, cash and cash equivalents comprise bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

2.9 Rental and service income receivables

Rental and service income receivables are amounts due from customers arising from leases on investment property in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Rental and service income receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective profit rate method, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all rental and service income receivables. To measure the expected credit losses, rental and service income receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has established a provision matrix that is based on the Group's historical credit loss experience, which is adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Rental and service income 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.

2.10 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Islamic financing

Islamic financing (corporate Ijarah) is a lease agreement whereby one party (as lessor) leases an asset to the other party (as lessee), after purchasing/acquiring the specified asset according to the other party's request and promise to lease against certain rental payments for specified lease term/periods. The duration of the lease, as well as the basis for rental payments, are set and agreed in advance.

After initial recognition, profit bearing Ijarah is subsequently measured at amortised cost using the effective profit rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognized as well as through the effective profit rate amortization process. Ijarah rent expense is recognised on a time-proportion basis over the Ijarah term.

2.12 Sukuk financial instruments

Sukuk financing instruments comprise Sharia's compliant financial instruments representing debt under a hybrid Murabaha and Wakala structure which are initially measured at fair value net of transaction costs incurred. After initial recognition, sukuk financial instruments are subsequently measured at cost.

Transaction costs include commissions paid to agents, advisers, brokers and levies by regulatory agencies and securities exchanges that are directly attributable to the issue of the Sukuk.

2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payables are recognised initially at fair value and subsequently measured at amortised cost using the effective profit rate method.

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.15 Revenue recognition

(a) Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term after the spreading of tenant incentives and fixed rental increases on such lease terms and is included in rental income in the consolidated statement of comprehensive income due to its operating nature.

The Group's main source of revenue is rental income earned from its investment properties, which is excluded from the scope of IFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Revenue recognition (continued)

(b) Service fee and other income

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

Step 1 - 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 each of those rights and obligations.

Step 2 – Identify the performance obligations in the contract

A performance obligation in a contract is a promise to transfer a good or service to the customer.

Step 3 – Determine the transaction price

Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 – Allocate the transaction price to the performance obligations in the contract

For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

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

Revenue is measured at the fair value of the consideration received or receivable, taking into account the contractually agreed terms of payment excluding taxes and duties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Revenue recognition (continued)

(b) Service fee and other income

Revenue is recognised in the consolidated statement of comprehensive income to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if and when applicable, can be measured reliably.

Service fee income represents amounts receivable for property service charges that are payable by tenants to contribute towards the operation and maintenance expenses of the relevant property. Service fees are recognised over time upon satisfaction of the performance obligation.

Revenue recognition – accounting policies applied until 31 December 2017

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 taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements.

The specific recognition criteria described below must also be met before revenue is recognised.

(a) Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term after the spreading of tenant incentives and fixed rental increases on such lease terms and is included in rental income in the consolidated statement of comprehensive income due to its operating nature.

(b) Service fee income

Service fee income represents amounts receivable for property service charges that are payable by tenants to contribute towards the operation and maintenance expenses of the relevant property. Service fees are recognised on a time proportion basis in accordance with the terms of the service agreements.

2.16 Property expenses

Property expenses comprise all property related expenses which include third party property and facility management fees and utility expenses. Property expenses are recognised in profit and loss in the period in which they are incurred (on an accruals basis).

2.17 Management fee

Management fee represents the fee payable to the REIT Manager in relation to its management of the REIT. The management fee expense is recorded when it is due.

2.18 Performance fee

The REIT accrues for the amount of performance fee at the balance sheet date calculated in accordance with the REIT Management Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Finance income and costs

Finance income comprises profit income on short term investments and other bank deposits. Profit income is recognised as it accrues in the consolidated statement of comprehensive income, using the effective profit rate method.

Finance costs are mainly profits payable on sukuk financing instruments issued and borrowings obtained from financial institutions at normal commercial rates and recognised as it accrues in the consolidated statement of comprehensive income in the period in which it is incurred.

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.

Profit income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Earnings per share

The Group presents basic earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit/(loss) attributable to the ordinary shareholders of the REIT by the weighted average numbers of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of equity shares outstanding to assume conversion of all dilutive potential ordinary shares. The REIT does not have any dilutive potential ordinary shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividend distribution

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

2.22 Earnings prohibited by Shari'a

The Group is committed to avoiding recognising any income generated from non-Islamic sources. Accordingly, any non-Islamic income will be credited to a charity fund where the Group uses these funds for social welfare activities. To date, no non-Islamic income has been generated.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's principal financial liabilities comprise sukuk financing instruments, Islamic financing facilities and trade payables. The main purpose of these financial instruments is to fund the purchase of investment property and to finance the Group's operations. The Group has various financial assets such as trade receivables and bank balances and cash, which arise directly from its operations.

The main risks arising from the Group's financial instruments are profit rate risk, foreign currency risk, credit risk, and liquidity risk. The REIT Manager reviews and agrees policies for managing each of these risks which are summarised below:

(a) Profit rate risk

The Group's exposure to the risk of changes in market profit rates relates primarily to the REIT's Islamic financing facilities with floating rates. As at 31 December 2018, if the profit rate on Ijarah facilities had been 1% higher/lower, with all other variables held constant, profit for the year would have been USD 58 thousand lower/higher, mainly as a result of higher/lower finance expense.

As at 31 December 2018, the Group had sukuk financing instruments (Note 9). The fair value of the sukuk financial instrument is not materially different to their carrying amount, since the profit payable on the sukuk financing instrument is close to current market rates.

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As the Group's exposure to foreign currency risk is primarily limited to the US Dollar and the UAE Dirham, which is pegged to the US Dollar, the Group is not considered to be exposed to any significant currency risk.

(c) Credit risk

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

Credit risk arises from bank balances and trade and other receivables.

The credit risk faced by the Group is the risk of a financial loss if (i) tenants fail to make rental payments or meet other obligations under their leases or (ii) a counter party to a financial instrument or other financial arrangement fails to meet its obligations under that instrument or arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(c) Credit risk (continued)

Following financial assets of the Group are subject to expect credit loss model as they are classified as amortised cost:

- Cash and cash equivalents
- Trade receivables and other receivables

Cash and cash equivalents are current and saving account balances which are receivable on demand and the REIT Manager is able to withdraw the deposit as and when required. Based on the ECL assessment, the amount after assessment is approximately equal to the carrying value.

Trade receivables

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.

The expected loss rates are based on the payment profiles of revenue over historical period 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 most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

		2018		2017
	Gross USD'000	**Impairment (ECL) USD'000**	Gross USD'000	Impairment USD'000
Less than 6 months	4,668	**(17)**	158	-
Between 6 months to 1 year	1,393	**(1,763)**	1,077	-
Between 1 to 2 years	1,835	**(458)**	1,474	-
Between 2-3 years	290	**(145)**	424	(15)
More than 3 years	28	**(28)**	472	(472)
Total	8,214	**(2,411)**	3,605	**(487)**

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(c) Credit risk (continued)

The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances refer note 6.

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.

Impairment losses *(or reversal)* on trade receivables are presented as net impairment losses on trade receivables within other expenses. Subsequent recoveries of amounts previously written off are credited against the same line item or recorded in other income.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Since simplified model has been used for trade receivables therefore, these are classified as Stage 2 under the provisions of IFRS 9 and life time ECL is determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Following financial assets of the Group are subject to expect credit loss model as they are classified as amortised cost:

- Cash and cash equivalents
- Trade receivables and other receivables

Cash and cash equivalents are current and saving account balances which are receivable on demand and the REIT Manager is able to withdraw the deposit as and when required. Based on the ECL assessment, the amount after assessment is approximately equal to the carrying value.

(d) Financial counterparties

The Group only maintains cash deposits with banks in the UAE that are regulated by the UAE Central Bank and which are Shari'a compliant. As a result, the credit risk in respect of those entities is minimised. They are assessed by the REIT Manager to be at a relatively low risk of default.

Rating	**Credit rating agency**	**2018 USD'000**	**2017 USD'000**
A+	Fitch	1,852	60,248
A	Fitch	12,075	2,810
A-	Fitch	528	883
BBB+	Fitch	23,046	3,920
Total		37,501	67,861

(e) Tenants

The REIT Manager maintains the property portfolio under continual review to minimise tenant credit risk. Tenants occupying under existing leases at the time of the acquisition of an interest in a property are actively monitored for timely payment of rent and other obligations following the acquisition. New tenants that commence occupation subsequent to the acquisition of an interest in a property are assessed at the time of entering a lease. Amounts receivable from a single customer at 31 December 2018 represented 24.46% (31 December 2017: 19.8%) of the total rental and service fee income receivable.

The REIT Manager engages external property management agents to manage the payment of rents by tenants. The REIT Manager remains actively involved and undertakes regular consideration of tenant profiles, existing and anticipated voids, overdue rents and outstanding rent reviews. Rent deposits are held in respect of all new leases and may be withheld by the Group in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

(f) Liquidity risk

The liquidity risk faced by the Group is that it may have insufficient cash or cash equivalent resources to meet its financial obligations as they fall due. The Group actively manages liquidity risk by monitoring actual and forecast cash flows and by maintaining adequate cash reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(f) Liquidity risk (continued)

At 31 December 2018	Less than 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Total USD'000
Sukuk financing instruments	-	-	400,000	-	400,000
Sukuk profit	-	20,500	61,500	-	82,000
Ijarah Islamic finance	2,284	6,851	36,541	21,572	67,248
Ijarah Islamic financing profit expense	1,024	2,853	9,952	1,787	15,616
Trade and other payables (excluding advances received)	6,717	2,090	-	-	8,807
Total undiscounted financial liabilities	10,025	32,294	507,993	23,359	573,671

At 31 December 2017	Less than 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Total USD'000
Sukuk financing instruments	-	-	400,000	-	400,000
Sukuk profit	-	20,500	82,000	-	102,500
Trade and other payables (excluding advances received)	4,493	8,786	-	-	13,279
Total undiscounted financial liabilities	4,493	29,286	482,000	-	515,779

(h) Capital management

The primary objective of the Group when managing capital is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group's strategy for its capital management is to maintain a prudent balance of equity and debt appropriate to the profile of the Group's asset portfolio taking into account regulatory restrictions on gearing.

Capital comprises share capital, share premium and retained earnings and is measured at USD 520,004 thousand as at 31 December 2018 (2017: USD 521,648 thousand).

The REIT is required by DFSA regulations to limit borrowings to a maximum of 65% of gross asset value. As of 31 December 2018, the borrowings as a percentage of gross asset value were 45.9% (2017: 41.9%).

3.2 Fair value measurement

Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group include bank balances and cash, receivables and certain other assets. Financial liabilities of the Group include sukuk financing instruments, Islamic financing facilities and accounts payable and certain other liabilities. The fair values of the financial assets and financial liabilities approximate their carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Fair value measurement (continued)

Assets measured at fair value

The following table provides the fair value measurement hierarchy of the Group's investment property:

	Date of valuation	Quoted prices in active Markets (Level 1) USD'000	Significant observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000	Total USD'000
Investment property	31 December 2018	-	139,786	811,380	951,166
Investment property	31 December 2017	-	159,875	687,950	847,825

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

The preparation of the Group's consolidated financial statements requires the REIT Manager to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Group's accounting policies, the REIT Manager has made the following judgements, apart from those involving estimations, which have the most significant impact on the amounts recognised in the consolidated financial statements.

(a) Fair valuation of investment property

The Group carries its investment property at fair value, with changes in fair value being recognised in the consolidated statement of comprehensive income. The Group engaged independent valuation specialists who hold recognised and relevant professional qualifications and have relevant experience in the location and type of investment property held, to determine the fair values of investment property as at 31 December 2018. For income producing investment property, a valuation methodology based on the capitalisation rate method was used, as it represents a method of determining the value of the investment property by calculating the net present value of expected future earnings.

The valuation method adopted for these properties is based on inputs that are not based on observable market data (that is, unobservable inputs - Level 3). However, for vacant investment property and properties under re-development, valuation was based on sales comparison method, by which value of each property is derived by comparing it with prices achieved from transactions in similar properties (that is, significant observable input – Level 2).

The fair value measurement is then reclassified from Level 2 to Level 3, when vacant investment property shifts to income producing investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Revaluation of investment property (continued)

The determined fair value of the investment property is most sensitive to the equivalent yield and estimated rental value. Below is a sensitivity analysis in isolation of the key assumptions used to determine the fair value of the investment property :

Stabilised yield USD'000		**Stabilised occupancy rate**		**Estimate rental value USD'000**	
		USD'000	**USD'000**		
+0.5%	-0.5%	+5%	-5%	+5%	-5%
(44,085)	49,353	23,512	(26,681)	26,248	(26,245)

(b) Operating lease commitments — REIT as lessor

The REIT has entered into commercial property leases on its investment property portfolio. The REIT has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(c) Allowance for expected credit loss

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;

An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

5 INVESTMENT PROPERTY

	Completed properties USD'000	Properties under construction USD'000	Total USD'000
At 1 January 2017	**747,886**	**4,817**	**752,703**
Acquisitions during the year	37,001	-	37,001
Construction work in progress during the year	-	16,088	16,088
Additional re-development and fitout projects on completed properties	15,743	-	15,743
Net gain from fair value adjustments on investment property	24,483	13,555	38,038
At 31 December 2017	**825,113**	**34,460**	**859,573**
Acquisitions during the year	51,921	-	51,921
Construction work in progress during the year	-	3,643	3,643
Additional re-development and fitout projects on completed properties	13,761	-	13,761
Net gain/(loss) from fair value adjustments on investment property	12,934	(1,896)	11,038
At 31 December 2018	**903,729**	**36,207**	**939,936**

Fair value reconciliation

	Completed properties USD'000	Properties under construction USD'000	Total USD'000
Market value per external valuation report as at 31 December 2018	**914,959**	**36,207**	**951,166**
Additional re-development and fitout projects under progress on completed properties	4,123	-	4,123
Lease incentive asset (Note 6)	(22,309)	-	(22,309)
Deferred income (Note 11)	6,956	-	6,956
Fair value as at 31 December 2018	**903,729**	**36,207**	**939,936**

Properties under construction include a school development under construction.

As at the reporting date, the Group held total investment property amounting to USD 939,936 thousand (31 December 2017: USD 859,573 thousand) in a real estate portfolio of 11 properties (2017: 10 properties) located in Dubai, UAE.

Rental income for the year ended 31 December 2018 is recognised at USD 61,333 thousand (2017: 53,964).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

5 INVESTMENT PROPERTY (continued)

Properties under land lease agreements

Five of the REIT's properties are constructed/under construction on plots in Dubai which are under land lease agreements as follows:

- Remaining lease term of 20.7 years with a fair value of USD 6,698 thousand;
- Remaining lease term of 37.9 years with a fair value of USD 89,327 thousand;
- Remaining lease term of 25.1 years renewable for another term of 30 years with a fair value of USD 36,207 thousand;
- Remaining lease term of 11.4 years renewable for two additional terms of 30 years each with a fair value of USD 40,430 thousand; and
- Remaining lease term of 26.3 years renewable for another term of 30 years with a fair value of USD 35,257 thousand.

Lycee Francais Jean Mermoz

On 13 May 2018, the REIT acquired the leasehold interest in 9,322 square meters plot land in Al Quoz, Dubai, with an existing school on a 26.8 year lease term for a total consideration of USD 21,466 thousand. As of 31 December 2018, the fair value of the newly acquired property amounted to USD 35,257 thousand.

Index Tower – additional floors

On 17 December 2018, the REIT acquired three commercial office floors with an aggregate leasable area of 5,403 square meters. As of 31 December 2018, the fair value of the newly acquired floors amounted to USD 40,765 thousand.

Fair valuation

The fair valuations of investment property were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, the REIT Manager took into account potential changes in rental levels from each contract's rent and expiry date compared with the estimated current market rent, as well as changes in occupancy rates and property costs. Fair value hierarchy disclosures for investment property has been provided in Note 3.2.

As at 31 December 2018, the fair value of the investment property was adjusted for the Lease incentive asset (Note 6) and deferred income (Note 11) in accordance with IAS 40. The amount of adjustment is USD 15,353 thousand.

The following table shows a reconciliation of the opening balances to the closing balances for Level 3 fair values:

	2018 USD'000	2017 USD'000
Balance at the beginning of the year	687,950	591,996
Transfer from Level 2 to Level 3	39,790	20,915
Additions of new investment property during the year	51,952	37,001
Net unrealised gain on revaluation of investments properties	31,680	38,038
Balance at the end of the year	811,372	687,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

5 INVESTMENT PROPERTY (continued)

Fair valuation (continued)

For investment property categorised under Level 3 fair value hierarchy, a valuation methodology based on the capitalisation rate method was used, as it represents a method of determining the value of the investment property by calculating the net present value of expected future earnings.

For investment property categorised under Level 2 fair value hierarchy, a valuation methodology based on the sales comparison method was used by comparing it with prices achieved from transactions in similar properties.

Properties for which rental cash flows can be realistically predicted are transferred to Level 3, properties where cash flows are dependent on re-development and fitout, in addition to properties that do not have an existing lease or promise to lease are kept as Level 2.

The significant unobservable inputs used in arriving at fair values of investment property are the stabilised occupancy rate, the equivalent yield and property operating expenses. The assumptions are applied on a property by property basis and vary depending on the specific characteristics of the property being valued. The range in those assumptions used in arriving at the fair value of investment property are as follows:

	2018	**2017**
Stabilised occupancy rate (%)	85-100	90 – 100
Equivalent yield (%)	7.98 – 9.50	8.00 – 9.50
Operating expenses (USD/sq. ft.)	6.52 – 18.35	7.88 – 18.35

Investment properties with a carrying value of USD 287,689 thousand (31 December 2017: Nil) are mortgaged against Islamic financing facilities (Note 10).

6 TRADE AND OTHER RECEIVABLES

	2018	**2017**
	USD'000	**USD'000**
Rental and service income receivable	8,214	3,605
Less: provision for expected credit losses	(2,411)	(487)
	5,803	3,118
Other financial assets at amortised cost		
Other receivables	2,473	1,048
Other assets		
Lease incentive asset	22,309	15,838
Prepayments	994	1,294
	31,579	**21,298**
Less non-current portion – Lease incentive asset	(19,809)	(13,404)
Current portion	**11,770**	**7,894**

Lease incentive asset relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods and rent uplifts, over the expected terms of their respective leases in accordance with IAS 17.

Included within the USD 2,411 thousand provision for expected credit losses is an amount of USD 1,991 thousand, which represents a full provision made for an amount due from a tenant with a dispute subject to arbitration proceedings (Note 17 (b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

6 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, the movement in the allowance for impairment of receivables is as follows:

	2018 USD'000	2017 USD'000
At 1 January- calculated under IAS 39	487	412
Effect for adoption of IFRS 9 on 1 January 2018	-	-
Opening expected credit loss as at 1 January 2018- calculated under IFRS 9	487	412
Increase in expected credit loss recognised in consolidated statement of comprehensive income during the year	3,259	75
Receivables written off	(1,335)	-
Balance at the end of the year	2,411	487

As at 31 December, the aging analysis of past due but unimpaired receivables is as follows:

	2018		2017	
	Rental and service income receivable USD'000	Allowance for expected credit loss USD'000	Rental and service income receivable USD'000	Allowance for expected credit loss USD'000
Less than 6 months	4,668	(17)	158	-
Between 6 months to 1 year	1,393	(1,763)	1,077	-
Between 1 to 2 years	1,835	(458)	1,474	-
Between 2-3 years	290	(145)	424	(15)
More than 3 years	28	(28)	472	(472)
Total	8,214	(2,411)	3,605	(487)

7 CASH AND CASH EQUIVALENTS

	2018 USD'000	2017 USD'000
Current and savings accounts	38,175	67,861

Balances are with local Islamic banks that are regulated by the UAE Central Bank. As a result, the credit risk in respect of those entities is minimized. They are assessed by the REIT Manager to be at a relatively low risk of default (Note 3.1).

8 SHARE CAPITAL

	Number of ordinary shares	Ordinary shares USD'000	Share premium USD'000	Total USD'000
At 31 December 2018	299,620,541	299,621	59,393	359,014
At 31 December 2017	299,620,541	299,621	59,393	359,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

8 SHARE CAPITAL (continued)

The authorised share capital of the REIT is USD 10,000,000,100 and is divided into one Manager Share with a par value of USD 100; and 10,000,000,000 ordinary shares with a nominal par value of USD 1 per share.

9 SUKUK FINANCING INSTRUMENT

On 12 December 2017, the REIT issued five year trust certificates ("Sukuk") of USD 400 million through Emirates REIT Sukuk Limited (the "Trustee" or "SE"), a structured entity formed for the issuance of the Sukuk. The Sukuk were listed on the Main Securities Market (MSM) of the Irish Stock Exchange (ISE) with a Fitch rating of BB+. The Sukuk have a maturity date of December 2022 and pay a profit rate of 5.125% per annum payable semi-annually on 12 June and 12 December in each year, commencing on 12 June 2018.

The Shari'a terms of the issuance include transfer of certain identified investment properties (the "Properties") to the SE in order to comply with the principles of Shari'a. In substance, these Properties shall continue to remain under the control of the REIT and shall continue to be serviced by the REIT.

	2018 **USD'000**	**2017** **USD'000**
At 1 January	397,344	-
Issued during the year	-	400,000
Less: transaction cost	-	(2,656)
Amortisation of transaction costs	366	-
Sukuk- net of transaction cost	397,710	397,344

The Sukuk financing instrument has certain covenants on the REIT. These covenants state that the REIT will ensure that the following financial ratios are met:

(a) Total indebtedness to total assets in respect of immediately preceding measurement period should be less than 0.6:1
(b) The ratio of EBITDA to net finance expense in respect of the immediately preceding measurement period should be greater than 1.5:1.

The REIT has complied with the financial covenants of its Sukuk financing instrument during the year ended 31 December 2018.

10 ISLAMIC FINANCING

Ijarah facilities	**Within 1 year** USD'000	**Between 1 and 5 years** USD'000	**More than 5 years** USD'000	**Total** USD'000
At 31 December 2018	8,952	44,751	12,217	65,920
At 31 December 2017	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

10 ISLAMIC FINANCING (continued)

The Islamic financing facilities were obtained by the REIT to finance the acquisitions of investment property. During the year the REIT entered into Islamic financing facility of total USD 121,699 thousand. As at 31 December 2018, the drawn down amounts are recorded at USD 65,920 thousand net of transaction costs of USD 1,327 thousand.

At 31 December 2018, the weighted average cost of finance taking into account the profit rate attributable to each loan and the amortisation of financing transaction costs was 3 month EIBOR + 3.225%.

The facilities have certain covenants on the REIT. These covenants state that the REIT will ensure that the following financial ratios are met:

(a) Finance to value ratio of the underlying asset should not exceed 50%-65%.
(b) Income cover: income over profit and principal payments should be 25% higher than net operating income at property level.

Also as per DFSA Rules, the Total Islamic finance should not exceed 65% of the gross asset value of the REIT.

The REIT has complied with the financial covenants of its Islamic facilities during the year ended 31 December 2018.

The financing facilities are secured by the following:

(a) First Rank Legal Mortgages over financed properties in favour of the banks for USD 287,688 thousand.

(b) Assignment of comprehensive insurance over financed properties in favour of the bank.

(c) Assignment of rental income from financed properties in favour of the bank.

During December 2017, the REIT repaid its outstanding Islamic financing by issuing a sukuk financing instrument (Note 9).

Movement for the year ended 31 December is as follows:

	2018 USD'000	2017 USD'000
Balance at the beginning of the year	-	313,649
Islamic financing received during the year	67,247	72,556
Less: Transaction costs on financing	(1,327)	-
Islamic financing repaid during the year	-	(386,205)
Balance at the end of the year	65,920	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

11 TRADE AND OTHER PAYABLES

	2018 USD'000	2017 USD'000
Deferred income	6,956	7,641
Payable against investment property under construction or re-development	2,090	8,786
Tenant deposits payable	8,368	6,168
Accrued expenses	5,732	2,585
Service fee received in advance	537	1,627
Performance fee payable	698	1,615
Accrued profit expense	1,387	1,025
Management fee	173	261
Administration fee	115	32
	26,056	29,740

Included in the above accounts are balances due to related parties amounting to USD 870 thousand (2017: USD 1,876 thousand) (Note 14).

Payable against investment property under construction or re-development includes USD 1,822 thousand of retentions payable for school under development which are payable within one year.

12 ZAKAT

Zakat is payable by the shareholders based on their share of the net assets of the REIT at the end of every reporting period. The Group is not liable to pay Zakat.

13 CASH DIVIDENDS

In January 2018, the REIT paid an interim dividend in respect of the year ended 31 December 2017 of USD 0.04 per ordinary share amounting to a total interim dividend of USD 11,984,821 to shareholders on the register as at 23 January 2018.

In June 2018, the REIT paid a final dividend in respect of the year ended 31 December 2017 of USD 0.04 per ordinary share amounting to a total final dividend of USD 11,984,821to shareholders on the register as at 14 June 2018.

In January 2017, the REIT paid an interim dividend in respect of the year ended 31 December 2016 of USD 0.04 per ordinary share amounting to a total interim dividend of USD 11,984,821 to shareholders on the register as at 16 January 2017.

In June 2017, the REIT paid a final dividend in respect of the year ended 31 December 2016 of USD 0.04 per ordinary share amounting to a total final dividend of USD 11,984,821 to shareholders on the register as at 8 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

14 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the REIT Manager, associated companies, shareholders, directors and key management personnel of the REIT Manager, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the REIT Manager.

Equitativa (Dubai) Limited, a company limited by shares, is the REIT Manager.

(a) Related party transactions

The Group entered into the following significant transactions with related parties during the year:

	2018 USD'000	2017 USD'000
Equitativa (Dubai) Limited		
Management fee	(14,508)	(12,973)
Performance fee	(698)	(1,615)
Rental and service income	-	4
	(15,206)	(14,584)

(b) Due to related parties comprises:

	2018 USD'000	2017 USD'000
Equitativa (Dubai) Limited	870	1,876

Management fee is payable to the REIT Manager quarterly in advance and is calculated quarterly based on the aggregated gross value of the assets of the REIT at a rate of 1.5% per annum.

The Performance fee is payable to the REIT Manager annually in arrears, at a rate of 3% of the increase in net asset value per share by reference to the highest net asset value per share previously used in calculating the fee.

All transactions with related parties are approved by the REIT Manager. Outstanding balances at the year-end are unsecured and profit free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management personnel

During the years ended 31 December 2018 and 31 December 2017, the role of the key management personnel in accordance with IAS 24 was performed by the REIT Manager, for which the REIT Manager receives remuneration in the form of a management fee and performance fee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

15 FINANCE COSTS

	2018 USD'000	2017 USD'000
Ijarah Islamic financing profit expense	(362)	(11,043)
Ijarah processing fee	(14)	(2,629)
Ijarah financing repayment associated cost	-	(1,719)
Sukuk profit expense	(20,500)	(1,025)
Sukuk issuance amortised expenses	(582)	(62)
Finance costs	(21,458)	(16,478)
Profit income on saving accounts	178	165
Finance income	178	165
Finance costs, net	(21,280)	(16,313)

16 EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") is calculated by dividing the net profit for the period attributable to ordinary equity holders of the REIT by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Profit attributable to ordinary shareholders (USD)	22,325,000	52,198,000
Weighted average number of ordinary shares for basic EPS	299,620,541	299,620,541
Basic and diluted earnings per share (USD)	0.075	0.170

The Group has no share options outstanding at the period end and therefore the basic and diluted EPS are the same.

17 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

At 31 December 2018, the REIT had contractual capital commitments of USD 2,656 thousand (2017: USD 19,600 thousand), which pertains to the construction of a school development and USD 12,593 thousand (2017: USD 7,007 thousand) in relation to fit out and re-development work in one of the completed properties.

(b) Contingencies

During the year, one of the REIT's tenants (the "tenant") has filed a claim which is subject to arbitration proceedings in the DIFC-LCIA. The REIT Manager is unable to estimate a provision as the claim is still in arbitration and in its initial stages. The REIT Manager however has considered its obligations with resepct to its contractual arrangments with that tenant and also the facts and circumstances surroundung the confidential arbitration proceedings instituted by the tenant in this regard.

Although the arbitration is still in very early stages, the REIT Manager has fully provided for the related rental and service income receivable due from this tenant of USD 1,991 thousand as of 31 December 2018 (Note 6). The REIT Manager however belives the case has no merit and it is unlikely to have a material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

17 COMMITMENTS AND CONTINGENCIES (continued)

(c) Operating lease commitments — Group as lessee

The Group has entered into commercial property leases on certain properties. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 are as follows:

	2018 USD'000	2017 USD'000
Within one year	2,738	1,931
After one year but not more than five years	11,845	7,691
More than five years	57,544	27,069
	72,127	36,691

(d) Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on certain properties. Future minimum rentals receivables under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	2018 USD'000	2017 USD'000
Within one year	58,247	47,769
After one year but not more than five years	145,779	131,355
More than five years	468,951	486,323
	672,977	665,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

18 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	2018 USD'000	2017 USD'000
Assets as per the balance sheet		
Amortised cost		
Trade and other receivables, excluding lease incentive asset and prepayments	8,276	4,166
Cash and cash equivalents	38,175	67,861
	46,451	72,027

	2018 USD'000	2017 USD'000
Liabilities as per the balance sheet		
Other financial liabilities at amortised cost		
Trade and other payables excluding deferred income, accrued expenses, service fee received in advance, performance fee payable, accrued profit expense and management fee	11,960	16,011
Sukuk financing instrument	397,710	397,344
Islamic financing	65,920	-
	475,590	413,355

19 Net debt reconciliation

	2018 USD '000	2017 USD '000
Cash and cash equivalents	38,175	67,861
Islamic financing – repayable within one year	(8,952)	-
Sukuk financing instrument and Islamic financing – repayable after one year	(454,678)	(397,344)
Net debt	(425,455)	(329,483)

	2018 USD '000	2017 USD '000
Cash and bank balances	38,175	67,861
Gross debt – fixed interest rates	(397,710)	(397,344)
Gross debt – variable interest rates	(65,920)	-
Net debt	(425,455)	(329,483)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

19 Net debt reconciliation (continued)

	Other assets	Liabilities from financing activities		
	Cash	Islamic financing due within 1 year	Sukuk financing instrument and Islamic financing due after 1 year	Total
	USD ‘000	USD ‘000	USD ‘000	USD ‘000
Net debt as at 1 January 2018	67,861	-	(397,344)	(329,483)
Cash flows, net	(29,686)	(8,952)	(57,334)	95,972
Net debt as at 31 December 2018	**38,175**	**(8,952)**	**(454,678)**	**(425,455)**

	Other assets	Liabilities from financing activities		
	Cash	Islamic financing due within 1 year	Sukuk financing instrument and Islamic financing due after 1 year	Total
	USD ‘000	USD ‘000	USD ‘000	USD ‘000
Net debt as at 1 January 2017	64,573	(28,819)	(284,830)	(249,076)
Cash flows, net	3,288	28,819	(112,514)	(80,407)
Net debt as at 31 December 2017	**67,861**	**-**	**(397,344)**	**(329,483)**

20 SUBSEQUENT EVENTS

In January 2019, the REIT paid an interim dividend in respect of the year ended 31 December 2018 of USD 0.04 per ordinary share amounting to a total interim dividend of USD 11,984,821 to shareholders on the register as at 23 January 2019.