Depa Limited and its Subsidiaries

Review report and condensed consolidated interim financial statements for the six month period ended 30 June 2018

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for the six month period ended 30 June 2018

Contents

Depa Limited and its Subsidiaries

Condensed consolidated interim statement of profit or loss for the six month period ended 30 June 2018

AED million

	Note	2018 (Unaudited)	2017 (Unaudited)
Revenue		852.2	834.6
Expenses	3	(799.5)	(704.9)
Share of loss from associates		(2.8)	(0.9)
Finance income		0.4	0.6
Finance cost		(5.5)	(5.6)
Net - finance cost		(5.1)	(5.0)
Profit before tax		44.8	123.8
Income tax expense		(9.0)	(10.5)
Profit for the period		35.8	113.3
Attributable to:			
Equity holders of the Parent		30.9	112.5
Non-controlling interests		4.9	0.8
		35.8	113.3
Earnings per share			
Basic earnings per share (UAE fils)		5.1	19.0
Diluted earnings per share (UAE fils)		5.0	18.0

Depa Limited and its Subsidiaries

Condensed consolidated interim statement of comprehensive income for the six month period ended 30 June 2018

AED million

	2018 (Unaudited)	2017 (Unaudited)
Profit for the period	35.8	113.3
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(3.9)	22.8
Total comprehensive income for the period	31.9	136.1
Attributable to:		
Equity holders of the Parent	27.2	134.4
Non-controlling interests	4.7	1.7
	31.9	136.1

Condensed consolidated interim statement of financial position

AED million

	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
ASSETS			
Cash and bank balances	4	434.1	504.3
Trade and other receivables	5	798.3	797.1
Due from construction contract customers		559.5	486.8
Inventories		62.3	49.8
Total current assets		1,854.2	1,838.0
Contract retentions		156.2	138.1
Financial assets at fair value through OCI		17.6	17.6
Property, plant and equipment		201.2	209.6
Intangible assets		39.8	42.5
Investment properties		37.3	37.3
Investment in associates	7	19.4	36.0
Deferred tax assets		3.7	3.7
Goodwill	6	297.3	297.3
Total non-current assets		772.5	782.1
Total assets		2,626.7	2,620.1
LIABILITIES			
Trade and other payables		1,091.8	1,013.5
Income tax payable		15.2	17.8
Borrowings	8	78.9	81.6
Total current liabilities		1,185.9	1,112.9
Employees' end of service benefits		79.5	76.1
Retentions		11.9	7.2
Other non-current liabilities		2.1	2.0
Deferred tax liabilities		0.3	0.2
Borrowings	8	24.3	25.9
Total non-current liabilities		118.1	111.4
Total liabilities		1,304.0	1,224.3
Net assets		1,322.7	1,395.8
EQUITY			
Share capital		908.9	904.6
Share premium		354.1	354.1
Treasury shares		(16.5)	(16.5)
Statutory reserve		58.4	54.2
Translation reserve		(5.3)	(1.6)
Other reserve		(2.2)	(1.4)
Retained earnings		25.0	103.6
Equity attributable to equity holders of the Parent		1,322.4	1,397.0
Non-controlling interests		0.3	(1.2)
Total equity		1,322.7	1,395.8

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 2 August 2018 and signed on its behalf.

Group Chief Executive Officer

Group Chief Financial Officer

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Depa Limited and its Subsidiaries

Condensed consolidated interim statement of changes in equity

AED million

	Share capital	Share premium	Share issuance costs	Treasury shares	Statutory reserve	Translation reserve	Other reserve	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total
At 1 January 2017	903.4	700.4	(64.8)	(16.5)	51.4	(41.0)	(5.3)	(311.9)	1,215.7	5.4	1,221.1
Profit for the period	-	-	-	-	-	-	-	112.5	112.5	0.8	113.3
Other comprehensive income	-	-	-	-	-	21.9	-	-	21.9	0.9	22.8
Total comprehensive income	-	-	-	-	-	21.9	-	112.5	134.4	1.7	136.1
Transfer to statutory reserve	-	-	-	-	2.4	-	-	(2.4)	-	-	-
Adjustment to share premium account	-	(346.3)	64.8	-	-	-	-	281.5	-	-	-
Employee share scheme	-	-	-	-	-	-	2.2	-	2.2	-	2.2
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(6.3)	(6.3)
At 30 June 2017 (Unaudited)	903.4	354.1	-	(16.5)	53.8	(19.1)	(3.1)	79.7	1,352.3	0.8	1,353.1
At 31 December 2017 (as previously stated)	904.6	354.1	-	(16.5)	54.2	(1.6)	(1.4)	103.6	1,397.0	(1.2)	1,395.8
Change in accounting policies (note 11)	-	-	-	-	-	-	-	(25.6)	(25.6)	-	(25.6)
At 1 January 2018 (adjusted)	904.6	354.1	-	(16.5)	54.2	(1.6)	(1.4)	78.0	1,371.4	(1.2)	1,370.2
Profit for the period	-	-	-	-	-	-	-	30.9	30.9	4.9	35.8
Other comprehensive income	-	-	-	-	-	(3.7)	-	-	(3.7)	(0.2)	(3.9)
Total comprehensive income	-	-	-	-	-	(3.7)	-	30.9	27.2	4.7	31.9
Employee share scheme	-	-	-	-	-	-	3.1	-	3.1	-	3.1
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(3.2)	(3.2)
Transfer to statutory reserve	-	-	-	-	4.2	-	-	(4.2)	-	-	-
New shares issued	4.3	-	-	-	-	-	(3.9)	(0.4)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(79.3)	(79.3)	-	(79.3)
At 30 June 2018 (Unaudited)	908.9	354.1	-	(16.5)	58.4	(5.3)	(2.2)	25.0	1,322.4	0.3	1,322.7

Condensed consolidated interim statement of cash flows

AED million

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Operating activities		
Profit before tax	44.8	123.8
Adjustments for:		
Depreciation of property, plant and equipment	15.5	16.1
Amortisation of intangible assets	2.7	2.7
Gain on disposal of property, plant and equipment	(0.1)	(0.1)
Share of loss from associates	2.8	0.9
Net reversal of allowance for doubtful debts and due from construction contract customers	(0.7)	(32.5)
Reversal of liabilities no longer required	(20.3)	(0.2)
Other long term provision	3.1	2.2
Impairment of investment in associate	3.7	-
Finance income	(0.4)	(0.6)
Finance cost	5.5	5.6
Provision for employees' end of service benefits	7.5	6.7
Operating cash flows before payment of employees end of service benefits, taxes and changes in working capital	64.1	124.6
Employees' end of service benefits paid	(4.1)	(3.7)
Income tax paid	(11.5)	(5.9)
Working capital changes		
Trade and other receivables	(13.3)	98.0
Inventories	(12.5)	(8.7)
Due from construction contract customers	(85.5)	(11.5)
Contract retentions	(18.1)	(1.8)
Retentions	4.7	(3.3)
Trade and other payables	98.6	(38.6)
Restricted cash	(54.8)	(33.6)
Net cash (used in)/generated from operating activities	(32.4)	115.5
Investing activities		
Purchase of property, plant and equipment	(10.2)	(5.9)
Disposal of property, plant and equipment	0.2	0.1
Dividends received from associates	3.1	4.4
Proceeds from sale of associates	7.0	-
(Increase)/decrease in long term fixed deposits	(1.1)	0.7
Finance income received	0.4	0.6
Net cash used in investing activities	(0.6)	(0.1)
Financing activities		
Dividends paid to non-controlling interests	(3.2)	(6.3)
Net movement in bank borrowings	(8.7)	(24.5)
Dividends paid to the shareholders	(79.3)	-
Finance cost paid	(5.5)	(5.6)
Net cash used in financing activities	(96.7)	(36.4)
Net (decrease)/increase in cash and cash equivalents	(129.7)	79.0
Exchange differences arising on translation of foreign operations	(0.8)	18.0
Cash and cash equivalents at the beginning of the period	308.6	271.0
Cash and cash equivalents at the end of the period	178.1	368.0

1. Corporate information

Depa Limited (the "Company") is a company limited by shares and registered in accordance with Companies Law – DIFC Law No. 2 of 2009, as amended, and was incorporated in United Arab Emirates on 25 February 2008. Depa Limited is the management company of Depa United Group P.J.S.C.

The Company and its subsidiaries (together referred to as the "Group") specialises in the luxury fit-out sector, focusing primarily on hospitality, commercial and residential property developments, and also includes the airport, retail, yacht, theming and specialist fit-out sectors. Additionally, the Group is a provider of manufactured products and procurement services, with a primary focus on customised furniture, fixtures and equipment, much of which is produced in its in-house facilities.

The Company's shares are listed on the Nasdaq Dubai.

The address of the Company's registered office is P.O. Box 56338, Dubai, United Arab Emirates.

2. Basis of preparation

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

Statement of compliance and accounting convention

These condensed consolidated interim financial statements for the six month period ended 30 June 2018 have been prepared in accordance with International Accounting Standard 'IAS 34 Interim Financial Reporting'.

The condensed consolidated interim financial statements have been prepared under the historical cost basis, except for certain investment properties and financial assets classified as fair value through other comprehensive income (FVOCI) which have been measured at fair value.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017 and any public announcements made by the Group during the interim reporting period.

In addition, results for the period from 1 January 2018 to 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

Financial risk management

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements; therefore, it should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements at and for the year ended 31 December 2017.

There have been no changes in the risk management department or in any risk management policies since the year end.

As at 30 June 2018, the Group has made available 1.1 million treasury shares to a broker to maintain stock market liquidity.

Liquidity risk factors

Ultimate responsibility for liquidity risk management rests with the board of directors, which has an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and bank balances, accounts receivable and other assets (excluding prepayments and advances to subcontractors and suppliers), amount due from customers on construction contracts and due from related parties. Financial liabilities consist of bank borrowings, accounts payable and accruals, (excluding advances received) subcontractors' retention and due to related parties.

At the period ended, the fair values of financial instruments are not materially different from their carrying values. The fair value of the financial assets and liabilities are considered at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

2. Basis of preparation (continued)

- Cash and bank balances, accounts receivable and other assets (excluding prepayments and advances to subcontractors and suppliers), amount due from customers on construction contracts, due from related parties, bank borrowings, accounts payable and accruals (excluding advances received) subcontractors' retention and due to related parties approximate their carrying amounts, largely due to the short-term maturities of these instruments.
- Long term receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken to account for the expected losses of these receivables. As at 30 June 2018, the carrying amounts of such receivables, net of provisions, are not materially different from their fair values.

Fair values estimation

The different levels have been defined as follows:

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

Investment properties having fair value of AED 37.3 million (31 December 2017: AED 37.3 million) are classified under Level 3. Investment properties are valued annually by qualified independent property valuation firms based on the market value of the relevant region in which the property is located. The most significant input into this valuation approach is price per square meter. The property valuation firms are specialised in valuing these types of investment properties.

The fair value stated is determined using valuation methods with parameters not based exclusively on observable market data (level 3).

Accounting policies

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below:

(a) New and amended standards adopted by the Group

The following new standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting these standards:

- IFRS 9 "Financial Instruments", and
- IFRS 15 "Revenue from Contracts with Customers".

The impact of the adoption of these standards and the new accounting policies are disclosed in note 11.

(b) New standards and amendments not early adopted by the Group

Certain new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2019 or later periods, but have not been early adopted by the Group:

IFRS 16, "Leases" (effective from 1 January 2019)

Management anticipates that this new standard will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2019. The impact is currently being assessed by management on the Group's consolidated financial statements.

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Depa Limited and its Subsidiaries

Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

3. Expenses

AED million

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Sub-contractor costs	320.6	269.8
Personnel costs	247.3	215.8
Material costs	185.3	183.9
Depreciation of property, plant and equipment	15.5	16.1
Impairment of investment in associate (note 7)	3.7	-
Premise rent	4.4	5.7
Registration and legal expenses	3.8	3.6
Amortisation of intangible assets	2.7	2.7
Sales and marketing expenses	0.1	9.2
Net reversal on trade receivables, contract retentions and due from construction contract customers (note 5)	(0.7)	(32.5)
Reversal of liabilities no longer required	(20.3)	(0.2)
Gain on sale of fixed assets	(0.1)	(0.1)
Other expenses	37.2	30.9
	799.5	704.9

4. Cash and cash equivalents

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Cash on hand	1.4	4.4
Current accounts	217.2	330.4
Short term fixed deposits	2.1	12.0
Term deposits with maturity over three months	23.3	22.2
Restricted cash	190.1	135.3
Cash and bank balances	434.1	504.3
Term deposits with original maturity over three months	(23.3)	(22.2)
Restricted cash	(190.1)	(135.3)
Bank overdraft (refer note 8)	(42.6)	(38.2)
Cash and cash equivalents	178.1	308.6

5. Trade and other receivables

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Trade receivables	438.9	456.3
Contract retentions	169.1	176.8
	608.0	633.1
Less: Allowances for doubtful debts	(118.4)	(113.3)
Net- trade receivable and contract retentions	489.6	519.8
Guarantees encashed by customers	18.2	18.2
Less: Allowances for doubtful debts	(18.2)	(18.2)
Net- guarantee encashed by customers	-	-
Amounts due from related parties	24.0	11.1
Advances to subcontractors and suppliers	175.3	167.5
Prepayments	31.1	23.8
Other receivables	78.3	74.9
	798.3	797.1

Trade receivables represent amounts due from customers for contract work rendered by the Group and duly certified by the customers. Contract retentions represent amounts withheld by the customers in accordance with contract terms and conditions. These amounts are to be repaid upon fulfilment of contractual obligations. The Group has filed arbitration and is in the process of filing legal claims against a certain customer to recover unpaid works along with prolongation costs for completed projects. Management is confident that it will be able to recover the receivable balances in full and hence, believe that no further provision is required in the condensed consolidated interim financial statements. The Group also has overdue contract balances for completed projects for which the Group is currently in advanced stages of discussion with the customers for the settlement of the outstanding balances and believes that no further provision is required.

Collectively and in relation to the above mentioned projects, the Group is carrying AED 108.0 million (31 December 2017: AED 108.0 million) of gross balances in trade and other receivables and due from construction contract customers again which the Group is carrying a provision of AED 16.0 million (31 December 2017: AED 16.0 million) in its condensed consolidated interim financial statements.

The movement in the allowance for trade receivables and contract retentions during the period is as follows:

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
At 1 January	113.3	92.7
Impact of adoption of IFRS 9 (note 11)	12.8	-
Charge for the period / year	6.2	23.6
Reversal during the period / year	(6.9)	(4.8)
Amounts transferred / written off	(7.0)	1.8
Closing balance	118.4	113.3

6. Goodwill

Goodwill has been allocated to the groups of cash-generating units which are the lowest level at which goodwill is monitored for internal management purposes.

Goodwill allocation to group of cash-generating units is as follows:

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Design Studio Group	144.0	144.0
Depa Interiors	72.6	72.6
Vedder	32.3	32.3
The Parker Company	17.0	17.0
Linder Middle East	16.5	16.5
Deco Emirates Group	14.9	14.9
	297.3	297.3

Goodwill is tested for impairment annually or when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the consolidated financial statements for the year ended 31 December 2017.

7. Investment in associates

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
At 1 January	36.0	44.7
Share of loss for the period/year	(2.8)	(1.4)
Dividend received	(3.1)	(7.3)
Disposal of associate	(7.0)	-
Impairment loss (note 3)	(3.7)	-
Closing balance	19.4	36.0

During current period the Group sold its investment in Al Tawasoul Property Development Company.

8. Borrowings

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Bank overdrafts (refer note 4)	42.6	38.2
Bank loans	36.8	28.7
Trust receipts and acceptances	23.8	40.6
	103.2	107.5

The borrowings are repayable as follows:		
Within 1 year	78.9	81.6
1- 2 years	2.8	2.6
Later than 2 years	21.5	23.3
	103.2	107.5

8. Borrowings (continued)

		AED million
Presented in the condensed consolidated statement interim of financial position as:		
Non-current liabilities	24.3	25.9
Current liabilities	78.9	81.6
	103.2	107.5

Bank overdrafts

The interest rate on the overdrafts varies between EIBOR plus 2.7% to 6.0% per annum (31 December 2017: EIBOR plus 2.7% to 6.0%) and the bank base rate plus a margin per annum.

Trust receipts and acceptances

Trust receipts and acceptances are facilities used by the Group for imports. The payment terms vary between 30 and 180 days and are subject to interest rates ranging from EIBOR plus 2.5% to 3.5% per annum (31 December 2017: 2.5% to 3.5% per annum).

Bank loans

No new facilities have been obtained since year ended 31 December 2017. The terms of the bank loans are detailed in the consolidated financial statements for the year ended 31 December 2017.

9. Related parties

Transactions between the Company and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note. Related parties include Directors, shareholders and key management personnel and entities in which they have the ability to control and exercise a significant influence in financial and operating decisions. The Group considers its joint operations as related parties on the basis of substance of the relationship. The Group maintains significant balances with related parties which arise from commercial transactions. The types of related party transactions are described below:

(a) Commercial transactions

The Group receives and provides services to related parties in the normal course of business at mutually agreed prices. These services consist of construction/fit-out work, leasing office space or land, use of specialised skills on certain projects, and use of employees from related party entities. In addition, the Group purchases supplies and inventory from certain related parties. Pricing policies and terms of related party transactions are approved in accordance with the Group's Corporate Governance policies, addressing related party transactions and conflicts of interest.

The tables below summarise amounts due to and due from related parties, as well as amounts included in expenses and management remuneration.

		AED million
	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Related party transactions		
Entities with common ownership and or management		
Revenue	87.6	144.8
Expenses	95.2	13.3
Finance cost	-	0.2

9. Related parties (continued)

(b) Compensation of key management personnel

The remuneration of directors and other key members of management of the Group during the period were as follows:

AED million

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Short-term compensations	4.6	4.6
End of service benefits	0.3	0.3
Employee share scheme	3.1	2.2
Director's fees	1.2	1.2
	9.2	8.3

Trade and other receivables (note 5) and due from construction contract customers includes amounts due from related parties amounting to AED 302.2 million as at 30 June 2018 (31 December 2017: AED 281.9 million).

Trade and other payables include amounts due to related parties amounting to AED 2.8 million as at 30 June 2018 (31 December 2017: AED 1.2 million).

10. Commitments and contingencies

AED million

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Letters of credit	32.3	62.9
Letters of guarantee	710.4	741.7
Security cheques issued	2.6	1.0

The above letters of credit and guarantee were issued in the normal course of business.

The Group has no committed capital expenditures as at 30 June 2018 (31 December 2017: nil).

The security cheques were issued in lieu of a performance bond for a project.

Legal cases

The Group companies are defendants in a number of legal proceedings which arose in the normal course of business. The Group does not expect that the outcome of such proceedings either individually or in the aggregate will have a material effect on the Group's operations, cash flows or financial position.

11. Change in accounting policies

Impact on the financial statements

This note explains the impact of the adoption of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

As a result of the changes in the Group's accounting policies, opening retained earnings of the financial statements has to be adjusted. IFRS 9 and IFRS 15 was adopted without restating comparative information in accordance with its transitional provisions. The reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. The adjustments are explained in more detail overleaf.

11. Change in accounting policies (continued)

11.1 IFRS 15 “Revenue from Contracts with Customers”

11.1.1 Impact of adoption

The IASB has issued a new standard for the recognition of revenue. IFRS 15 “Revenue from Contracts with Customers” outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes IAS 11 which covers construction contracts and IAS 18 which covers contracts for goods. 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 Group has adopted IFRS 15 “Revenue from Contracts with Customers” from 1 January 2018 and applied the cumulative effect approach in accordance with the transitional provision of IFRS 15. Following practical expedients available under the cumulative effect approach of IFRS 15 have been opted by the Group:

- The requirements of the new standard have been applied to contracts that are not completed as at the date of initial application (1 January 2018); and

- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

The Group has assessed the impact of applying the new standard on the Group’s consolidated financial statements and has identified following areas that were affected:

(i) Combination of contracts

The Group is required to combine two or more contracts entered into at or near the same time with the same customer and account for the contracts as a single contract under IFRS 15 if one or more of the following criteria are met:

1. The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
3. The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

During the impact assessment exercise of IFRS 15, the Group has identified arrangements which meet the above criteria. These arrangements have been combined and accounted for as a single arrangement for revenue recognition but the impact on the financial statements is not material.

(ii) Accounting for multiple performance obligations under a single contract

The Group provides complete interior fit out solutions to its customers operating in a wide variety of industries as noted in note 11. These arrangements can have single or multiple performance obligations under IFRS 15 based on the nature of interior design solutions being offered under that arrangement. Factors affecting the conclusion whether an arrangement has single or multiple performance obligations can include (among other factors) customer’s expectations from the contract, distinct nature of the products and services and degree of integration or inter-relation between the various products and services. This assessment requires significant judgement from the Group.

11. Change in accounting policies (continued)

11.1 IFRS 15 "Revenue from Contracts with Customers" (continued)

11.1.1 Impact of adoption (continued)

(ii) Accounting for multiple performance obligations under a single contract (continued)

The Group accounted for majority of its arrangements as a single performance obligation under the previous revenue recognition framework. It has analysed all its open arrangements at the initial application date to assess whether these have single or multiple performance obligations. Certain contracts were identified where the Group had multiple performance obligations within a single contract but the impact of allocating the transaction price and recognising revenue separately for each performance obligation is not resulting in a material adjustment to the revenue for the period ended 30 June 2018 and opening retained earnings at 1 January 2018.

There were no other areas which impacted the revenue recognised by the Group at the initial application date and for the period ended 30 June 2018.

11.1.2 IFRS 15 accounting policies

The application of the new standard required the Group to apply the following new accounting policies:

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

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 every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
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 amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point time or over time.

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

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

11. Change in accounting policies (continued)

11.1 IFRS 15 “Revenue from Contracts with Customers” (continued)

11.1.2 IFRS 15 accounting policies (continued)

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. As part of the impact assessment exercise, the Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore, it meets the criteria to recognise revenue overtime and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performance obligation.

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

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

Variations which are in the nature of extension of existing scope of work are accounted for using cumulative catch up adjustments to the cost to complete method of revenue recognition. Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Revenue is recognised in the 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 applicable, can be measured reliably.

A loss is recognised in statement of other comprehensive income when the expected contract cost exceeds the anticipated contract revenue.

11.2 IFRS 9 “Financial Instruments”

11.2.1 Impact of adoption

(i) Classification and measurement

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 “Financial Instruments” from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 11.2.2 below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The table overleaf shows the adjustments for each individual line item of the statement of financial position. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed in the table overleaf cannot be compared with those disclosed in the statement of financial position.

11. Change in accounting policies (continued)

11.2 IFRS 9 "Financial Instruments" (continued)

11.2.1 Impact of adoption (continued)

(i) Classification and measurement (continued)

AED million

	31 December 2017	IFRS 9	1 January 2018
Consolidated statement of financial position (extract)			
Non-current assets			
Available-for-sale investments	17.6	(17.6)	-
Financial assets at fair value through OCI (FVOCI)	-	17.6	17.6
Current assets			
Trade and other receivables	797.1	(12.8)	784.3
Due from construction contract customers	486.8	(12.8)	474.0
Total assets	1,301.5	(25.6)	1,275.9
Equity			
Retained earnings	103.6	(25.6)	78.0

There is no impact on the earnings per share of the Group.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. Management determines classification at initial recognition.

The Group has reclassified available-for-sale investments to fair value through other comprehensive income (FVOCI) category. The Group has elected to present in Other Comprehensive Income (OCI) changes in respect of the share of the fair value of equity investments made by an associate previously classified as available-for-sale investment, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

The management has concluded that there are no material reclassifications of financial assets other than disclosed above.

(ii) Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables; and
- Retentions and amounts due from construction contract customers

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed above.

11. Change in accounting policies (continued)

11.2 IFRS 9 "Financial Instruments" (continued)

11.2.1 Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables, retentions and amounts due from construction contract customers

The Group applies the simplified approach permitted by IFRS 9 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, retentions and amounts due from construction contract customers.

To measure the expected credit losses, the Group has concluded expected loss rates for trade receivables, retentions and amounts due from construction contract customers which have been segregated based on credit risk characterises. Based on expected loss rates, the loss allowance as at 1 January 2018 was determined for trade receivables, retentions and amounts due from construction contract customers for each segment separately and ranges up to 74% depending on the ageing buckets in which the trade receivables, retentions and amounts due from construction contract customers fall.

The loss allowances for trade receivables, retentions and amounts due from construction contract customers as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

AED million

	Total
At 31 December 2017 – calculated under IAS 39	141.2
Amounts adjusted	25.6
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	166.8

The loss allowances increased by a further AED 12.8 million to AED 126.1 million for trade receivables and retentions and by AED 12.8 million to AED 66.2 million for amounts due from construction contract customers. The increase would have been AED 25.6 million lower under the incurred loss model of IAS 39. The impact of expected credit loss model is immaterial during the six months to 30 June 2018.

Trade receivables, retentions and amounts due from construction contract customers are written off when there is no reasonable expectation of recovery.

11.2.2 IFRS 9 accounting policies

The application of the new standard required the management to apply the following new accounting policies:

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured 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. Management determines the classification of its investment at initial recognition.

11. Change in accounting policies (continued)

11.2 IFRS 9 "Financial Instruments" (continued)

11.2.2 IFRS 9 accounting policies (continued)

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income (FVOCI) are carried at fair value. After initial measurement, the Group present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

The Group classifies debt instruments at amortized cost using effective interest rate method.

IFRS 9 replaces the 'incurred loss' model with a forward-looking 'expected credit loss' (ECL) model. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision.

12. Dividend

Subsequent to the period end, the Board of Directors has declared an interim dividend of UAE 2.6 fils per share or AED 15.9 million (2017: UAE 2.5 fils per share or AED 15.2 million) on 2 August 2018. The interim dividend has not been recognised as a liability in these condensed consolidated interim financial statements.

13. Corresponding figures

Certain corresponding figures have been reclassified where appropriate to conform to current period's presentation.

14. Segment information

The Group is organised in four key business units: Design Studio, Vedder, Depa Interiors, Deco Group and investments and others. These businesses are the basis on which the Group reports its primary segment information to the chief operating decision maker, who is the chief executive officer of the Group, for the purposes of resource allocation and assessment of segment performance. The principal products and services of each of these businesses are as follows:

a) Design Studio

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in the hospitality, commercial and residential sectors.
- Primarily operates in Asia.

b) Vedder

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in luxury super yachts, private jets and residences.
- Primarily operates in Europe.

c) Depa Interiors

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in luxury hotels, villas, residential, hospitality and public buildings.
- Primarily operates in the Middle East.

d) Deco Group

- Interior fit-out solutions, including contracting, manufacturing and supply, specialising in the high-end luxury retail sector.
- Manufacture and supply of stone works to the interior fit-out sector, specialising in high quality marble.
- Manufacture and supply of joinery and carpentry work to the interior fit-out sector.
- Primarily operates in the Middle East.

e) Investments and others

- Strategic management activities at a corporate level.
- Corporate services and head office function.
- Various activities, including procurement services, contracting, manufacturing and supply to the interior fit-out sector.
- Activities are geographically spread.

14.Segment information (continued)

The following is the analysis of the Group’s segments as at:

AED million

	Design Studio	Vedder	Depa Interiors	Deco Group	Investments and others	Eliminations / adjustments	Total
30 June 2018							
Reportable segment assets	440.0	387.0	1251.0	323.0	3,516.3	(3,290.6)	2,626.7
Reportable segment liabilities	184.0	195.0	1110.0	172.0	453.0	(810.0)	1,304.0
31 December 2017							
Reportable segment assets	374.7	353.6	1,322.5	317.1	3,455.2	(3,203.0)	2,620.1
Reportable segment liabilities	117.3	160.8	1,179.2	179.3	340.1	(752.4)	1,224.3
30 June 2018							
Revenue – internal	16.1	-	-	22.2	-	(38.3)	-
Revenue – external	232.1	161.3	312.2	99.0	47.6	-	852.2
Expenses	(241.7)	(141.2)	(282.0)	(104.5)	(52.9)	22.8	(799.5)
Share of loss from associates	-	-	-	-	(2.8)	-	(2.8)
Net finance income/(cost)	-	(0.7)	(5.4)	(1.0)	2.0	-	(5.1)
Income tax expense	(2.9)	(5.2)	-	-	(0.9)	-	(9.0)
Profit/(loss) for the period	3.6	14.2	24.8	15.7	(7.0)	(15.5)	35.8
Capital expenditure	5.3	1.9	1.2	0.7	1.1	-	10.2
Depreciation	3.5	2.0	4.7	3.2	2.1	-	15.5
Amortisation	-	-	-	-	2.7	-	2.7
30 June 2017							
Revenue – internal	18.8	-	-	19.2	-	(38.0)	-
Revenue – external	160.3	152.9	362.9	122.8	35.7	-	834.6
Expenses	(172.5)	(136.4)	(250.8)	(133.6)	(43.5)	31.9	(704.9)
Share of loss from associates	-	-	-	-	(0.9)	-	(0.9)
Net finance income/(cost)	0.2	(0.5)	(9.5)	(0.4)	5.2	-	(5.0)
Income tax expense	(1.8)	(4.3)	(4.4)	-	-	-	(10.5)
Profit/(loss) for the period	5.0	11.7	98.2	8.0	(3.5)	(6.1)	113.3
Capital expenditure	1.7	0.6	1.9	1.3	0.4	-	5.9
Depreciation	4.6	1.7	4.9	3.1	1.8	-	16.1
Amortisation	-	-	-	-	2.7	-	2.7

Report on review of condensed consolidated interim financial statements to the shareholders of Depa Limited

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Depa Limited and its subsidiaries (the 'Group') as at 30 June 2018 and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the six month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

PricewaterhouseCoopers
2 August 2018

PricewaterhouseCoopers

Murad Nsour
Partner
Place: Dubai, United Arab Emirates