

**MUNSHAAT REAL ESTATE PROJECTS  
COMPANY K.S.C.P. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2018**

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P.**

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

#### *Opinion*

We have audited the consolidated financial statements of Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, comprehensive income, changes in equity and the cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Emphasis of Matter*

We draw attention to Note 20 to the consolidated financial statements, which describes that, during the year 2015, the contractor of one of the properties of the Group in the Kingdom of Saudi Arabia has claimed an amount equivalent to KD 41 million from the Parent Company and the Parent Company has filed a counter claim against the same contractor for delay in completing the project for an amount equivalent to KD 51 million. The ultimate outcome of the matter cannot presently be determined, and accordingly no provision for any liability that may result has been made in the consolidated financial statement of the Group as at 31 December 2018.

Our opinion is not modified in respect of this matter.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

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

#### *Key Audit Matters*

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### *a) Valuation of leasehold property*

Leasehold property held by the Group as at 31 December 2018 is operated as a Hotel that generates revenue from hotel operations. Leasehold property is measured at fair value and the recognition and measurement of leasehold rights is presented in the accounting policies in Note 2 to the consolidated financial statements. The fair value of the leasehold property was determined by accredited independent valuers with recognised professional qualification and with relevant experience in the locations and category of the leasehold property being valued. The fair value was determined based on the discounted cash flow (DCF) method that is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rate. The significant methods and assumptions used by the valuers in estimating the fair value of leasehold property are set out in Note 8 to the consolidated financial statements. Given the significance of leasehold property and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered valuation of leasehold property as a key audit matter.

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We further assessed reasonableness of the key assumptions and related estimation uncertainty. Our internal valuation specialists were part of our audit team and assisted with the audit of the valuation of the leasehold properties by challenging the assumptions and estimates used.

#### *b) Valuation of investment properties*

Investment properties comprise of a land in the State of Kuwait held for capital appreciation and completed properties in the Kingdom of Saudi Arabia held to earn rental income. These properties are measured at fair value on an individual basis with any gains or losses arising from changes in fair value included in the consolidated statement of profit or loss in the period in which they arise. The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

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

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

##### *b) Valuation of investment properties (continued)*

The fair value of the property located in the Kingdom of Saudi Arabia is determined based on the discounted cash flow (DCF) method, whereas the fair value of the property located in the State of Kuwait is valued using the market comparable approach which is based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The significant methods and assumptions used by the valuers in estimating the fair value of investment properties are set out in Note 8 of the consolidated financial statements. Given the significance of investment properties on overall consolidated financial statements and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter

As part of our audit procedures, we assessed the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers, which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We further assessed reasonableness of the key assumptions and related estimation uncertainty.

##### *c) Investment in associates*

Investment in associates are accounted for using the equity method of accounting. After application of the equity method, the Group determines whether there exists an objective evidence to recognise an impairment loss on its investment in associate based on the difference between the recoverable amount of the associate and its carrying value. The recoverable value of the material associates is determined based on the value-in-use, which is mainly derived from the underlying leasehold properties. The valuation of these underlying leasehold properties was performed by an accredited independent valuer with recognised professional qualification and with relevant experience in the locations and category of the leasehold property being valued and is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rates. The share of results from the associates are significant to the Group and reflects the Group's share of results of operations of the associates based on financial information of the associates. Given the significant judgment involved in determining the recoverable amount of the investment in associates, the materiality of the share of results and the carrying values of the Group's investment in associates to overall consolidated financial statements of the Group, we have considered this as a key audit matter.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

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

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

##### *c) Investment in associates (continued)*

As part of our audit procedures, with respect to the share of results from associates, we have sent detailed group audit instructions to the auditor's of the Group's associates that are material to the consolidated financial statements. The group audit instructions stated the focus areas of the audit and the risks of material misstatement relevant for the purposes of the Group's consolidated financial statements as well as the Group reporting requirements. Further, to assess impairment of the carrying value of associates which are based on the recoverable value of the underlying leasehold properties, audit procedures were performed at the Group level which included, assessing the objectivity of the valuation process and the competence, independence and integrity of the external valuers. We also evaluated the accuracy of the property data provided by the Group to the independent valuers which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We assessed reasonableness of the key assumptions and related estimation uncertainty. Our internal valuation specialists were part of our audit team and assisted with the audit of the valuation of the leasehold properties, including the assumptions and estimates used. Summarised financial information of the associates, and reconciliation to the carrying amount of the investment in the consolidated financial statements are set out in Note 10 to the consolidated financial statements.

#### *Other information*

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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.



## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

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

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.



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BADER A. AL ABDULJADER  
LICENCE NO. 207-A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

24 March 2019  
Kuwait



## Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Operating revenue	4	10,617,787	9,709,825
Operating costs	4	(10,655,220)	(11,333,800)
<b>Gross loss</b>		<b>(37,433)</b>	<b>(1,623,975)</b>
<b>Income</b>			
Management fees	18	729,555	401,479
Net income from sukouk		1,298,879	1,260,693
Income from partial disposal of leasehold property		-	2,133,344
Reversal of provision no longer required		-	6,097,771
(Charge for) reversal of impairment on leasehold property	8	(16,992,258)	6,541,543
Net (loss) income from investment properties	8	(305,558)	1,194,350
Reversal of provision on trading properties		-	10,444
Fair value gain of financial assets at fair value through profit or loss		141,623	63,725
Finance income		47,373	35,446
Dividend income		165,619	135,724
Other income		430,853	483,279
Share of results of associates	10	820,764	(1,115,000)
		<b>(13,663,150)</b>	<b>17,242,798</b>
<b>Expenses</b>			
General and administrative expenses	5	(2,858,123)	(3,175,088)
Allowance for expected credit losses	6	(1,846,031)	(32,370)
Depreciation		(29,362)	(34,500)
Write-down of inventories		(99,471)	(84,313)
Finance costs		(3,275,619)	(2,284,529)
Net foreign exchange differences		(61,328)	(473,117)
Impairment loss on prepaid operating lease		-	(108,182)
		<b>(8,169,934)</b>	<b>(6,192,099)</b>
<b>(Loss) profit for the year before tax</b>		<b>(21,870,517)</b>	<b>9,426,724</b>
Tax expense	6	(10,077,505)	(2,511,660)
Board of directors' remuneration	18	-	(65,000)
<b>(Loss) profit for the year</b>		<b>(31,948,022)</b>	<b>6,850,064</b>
<b>Attributable to</b>			
Equity holders of the Parent Company		(28,231,521)	4,311,932
Non-controlling interests		(3,716,501)	2,538,132
<b>(Loss) profit for the year</b>		<b>(31,948,022)</b>	<b>6,850,064</b>
<b>Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company</b>	7	<b>(88) fils</b>	<b>13 fils</b>

The attached notes 1 to 24 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 KD	2017 KD
<b>(Loss) profit for the year</b>	<b>(31,948,022)</b>	<b>6,850,064</b>
<b>Other comprehensive income (loss)</b>		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Net loss on available-for-sale financial assets	-	(77,067)
Share of other comprehensive income of an associate	5,820	1,683
Exchange differences on translation of foreign operations	(272,810)	(176,878)
<b>Net other comprehensive loss for the year that may be reclassified to profit or loss in subsequent periods</b>	<b>(266,990)</b>	<b>(252,262)</b>
<i>Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:</i>		
Change in the fair value of prepaid operating lease	-	(161,528)
Net loss on equity instruments designated at fair value through other comprehensive income	(276,729)	-
Revaluation of leasehold property	(6,112,532)	6,112,532
Share of other comprehensive income of an associate	-	(1,811,711)
<b>Net other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods</b>	<b>(6,389,261)</b>	<b>4,139,293</b>
<b>Other comprehensive (loss) income for the year</b>	<b>(6,656,251)</b>	<b>3,887,031</b>
<b>Total comprehensive (loss) income for the year</b>	<b>(38,604,273)</b>	<b>10,737,095</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	(34,473,419)	8,207,601
Non-controlling interests	(4,130,854)	2,529,494
	<b>(38,604,273)</b>	<b>10,737,095</b>

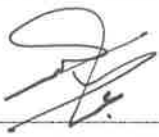
The attached notes 1 to 24 form part of these consolidated financial statements.

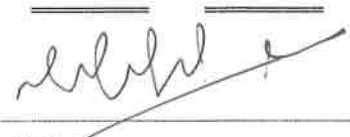
# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD	2017 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Furniture and equipment		102,268	48,472
Leasehold property	8	66,375,239	92,348,445
Investment properties	8	15,621,744	17,880,374
Prepaid operating lease	9	1,772,540	1,772,540
Investment in associates	10	32,798,051	34,185,681
Available-for-sale financial assets	11	-	6,200,329
Financial asset at fair value through profit or loss	11	4,953,030	-
Financial asset at fair value through other comprehensive income	11	853,082	-
		<u>122,475,954</u>	<u>152,435,841</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	11	-	249,590
Accounts receivable and prepayments	12	8,313,657	17,655,908
Trading properties		530,370	530,370
Inventories		935,413	922,684
Wakala receivable		198,019	541,669
Bank balances and cash		5,575,413	4,637,943
		<u>15,552,872</u>	<u>24,538,164</u>
<b>TOTAL ASSETS</b>		<u><b>138,028,826</b></u>	<u><b>176,974,005</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	32,200,000	32,200,000
Share premium		12,400,000	12,400,000
Statutory reserve	13	11,939,162	11,939,162
Voluntary reserve	13	7,512,156	7,512,156
Fair value reserve		(1,592,981)	1,338,442
Asset revaluation surplus		658,251	6,770,783
Foreign currency translation reserve		(335,900)	(477,442)
(Accumulated losses)/ retained earnings		(15,972,049)	9,598,957
<b>Equity attributable to equity holders of the Parent Company</b>		<u><b>46,808,639</b></u>	<u><b>81,282,058</b></u>
Non-controlling interests	14	(1,591,218)	2,539,636
<b>Total equity</b>		<u><b>45,217,421</b></u>	<u><b>83,821,694</b></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		1,180,887	1,071,784
Islamic finance payables	15	43,054,000	19,928,194
Obligations under finance lease	16	14,886,519	15,132,481
Accounts payable and accruals	17	4,580,418	202,559
		<u>63,701,824</u>	<u>36,335,018</u>
<b>Current liabilities</b>			
Islamic finance payables	15	7,585,407	7,197,684
Obligations under finance lease	16	1,295,840	1,289,121
Accounts payable and accruals	17	20,228,334	48,330,488
		<u>29,109,581</u>	<u>56,817,293</u>
<b>Total liabilities</b>		<u><b>92,811,405</b></u>	<u><b>93,152,311</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>138,028,826</b></u>	<u><b>176,974,005</b></u>

  
Abdullah Fuad Abdullah Al-Thaqeb  
Chairman

  
Abdulaziz Ahmad Yousef Al-Saqer  
Chief Executive Officer

The attached notes 1 to 24 form part of these consolidated financial statements.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to shareholders of the Parent Company										
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Fair value reserve KD	Asset revaluation surplus KD	Foreign currency translation reserve KD	(Accumulated losses)/ retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2018 as previously reported (audited)	32,200,000	12,400,000	11,939,162	7,512,156	1,338,442	6,770,783	(477,442)	9,598,957	81,282,058	2,539,636	83,821,694
Transition adjustment on initial application of IFRS 9 at 1 January 2018 (note 2.3)	-	-	-	-	(2,660,515)	-	-	2,660,515	-	-	-
As at 1 January 2018 (restated)	32,200,000	12,400,000	11,939,162	7,512,156	(1,322,073)	6,770,783	(477,442)	12,259,472	81,282,058	2,539,636	83,821,694
Loss for the year	-	-	-	-	-	-	-	(28,231,521)	(28,231,521)	(3,716,501)	(31,948,022)
Other comprehensive (loss) income for the year	-	-	-	-	(270,908)	(6,112,532)	141,542	-	(6,241,898)	(414,353)	(6,656,251)
Total comprehensive (loss) income for the year	-	-	-	-	(270,908)	(6,112,532)	141,542	(28,231,521)	(34,473,419)	(4,130,854)	(38,604,273)
As at 31 December 2018	32,200,000	12,400,000	11,939,162	7,512,156	(1,592,981)	658,251	(335,900)	(15,972,049)	46,808,639	(1,591,218)	45,217,421
As at 1 January 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,413,826	2,756,340	(309,202)	6,608,143	73,074,457	749,493	73,823,950
Profit for the year	-	-	-	-	-	-	-	4,311,932	4,311,932	2,538,132	6,850,064
Other comprehensive (loss) income for the year	-	-	-	-	(75,384)	4,139,293	(168,240)	-	3,895,669	(8,638)	3,887,031
Total comprehensive (loss) income for the year	-	-	-	-	(75,384)	4,139,293	(168,240)	4,311,932	8,207,601	2,529,494	10,737,095
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(739,351)	(739,351)
Amortisation transfer of leasehold properties	-	-	-	-	-	(124,850)	-	124,850	-	-	-
Transfers to reserves	-	-	722,984	722,984	-	-	-	(1,445,968)	-	-	-
As at 31 December 2017	32,200,000	12,400,000	11,939,162	7,512,156	1,338,442	6,770,783	(477,442)	9,598,957	81,282,058	2,539,636	83,821,694

The attached notes 1 to 24 form part of these consolidated financial statements.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
<b>OPERATING ACTIVITIES</b>			
<b>(Loss) profit for the year before tax</b>		<b>(21,870,517)</b>	<b>9,426,724</b>
<i>Adjustments to reconcile profit (loss) before tax to net cash flows:</i>			
Amortisation of leasehold property	8(a)	3,835,345	3,775,056
Valuation losses from investment properties	8(b)	2,292,859	877,196
charge for (reversal of) impairment on leasehold property	8(a)	16,992,258	(6,541,543)
Net gain on financial assets at fair value through profit or loss		(141,623)	(63,725)
Impairment loss on prepaid leasehold property		-	108,182
Reversal of provision on trading property		-	(10,444)
Finance income		(47,373)	(35,446)
Dividend income		(165,619)	(135,724)
Share of results of associates	10	(820,764)	1,115,000
Depreciation		29,362	34,500
Finance costs		3,275,619	2,284,529
Reversal of provision no longer required		-	(6,097,771)
Income from partial disposal of a leasehold property		-	(2,133,344)
Write-down of inventories		99,471	84,313
Net foreign exchange differences		61,328	473,117
Allowance for expected credit losses	6	1,846,031	32,370
Provision for employees' end of service benefits		275,468	219,282
		<b>5,661,845</b>	<b>3,412,272</b>
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		6,697,097	1,160,413
Inventories		(112,200)	(115,692)
Accounts payable and accruals		(3,130,349)	(4,400,963)
Cash flows proceeds from / used in operations		<b>9,116,393</b>	<b>56,030</b>
Employees' end of service benefits paid		(166,365)	(121,708)
Taxes paid		(33,653,110)	(232,625)
<b>Net cash flows used in operating activities</b>		<b>(24,703,082)</b>	<b>(298,303)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture and equipment		(83,158)	(14,973)
Additions to leasehold property		(234,701)	(65,244)
Proceeds from capital redemption of available-for-sale financial assets		-	525,195
Proceeds from capital redemption of financial assets at fair value through profit or loss		241,600	-
(Proceeds from) investment in wakala receivables		343,650	(224,316)
Proceeds from capital redemption of an associate	10	4,192,019	2,387,252
Dividend income received from an associate	10	399,651	-
Finance income received		47,373	35,446
<b>Net cash flows from investing activities</b>		<b>4,906,434</b>	<b>2,643,360</b>
<b>FINANCING ACTIVITIES</b>			
Net movement in Islamic finance payables		23,872,801	879,782
Payment of obligations under finance lease		(1,294,880)	(1,334,149)
Finance costs paid		(1,845,804)	(336,297)
Dividends paid to non-controlling interests		-	(739,331)
Dividend paid		(6,386)	-
<b>Net cash flows from (used in) financing activities</b>		<b>20,725,731</b>	<b>(1,529,995)</b>
Foreign currency translation adjustment		<b>8,387</b>	<b>(32,740)</b>
<b>INCREASE IN BANK BALANCES AND CASH</b>		<b>937,470</b>	<b>782,322</b>
Bank balances and cash at 1 January		<b>4,637,943</b>	<b>3,855,621</b>
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>		<b>5,575,413</b>	<b>4,637,943</b>

The attached notes 1 to 24 form part of these consolidated financial statements.



## 1 CORPORATE AND GROUP INFORMATION

### 1.1 CORPORATE INFORMATION

The consolidated financial statements of Munshaat Real Estate Projects Company K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of board of directors on 24 March 2019, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a public shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded on Boursa Kuwait. The registered office of the Parent Company is located at ITS Tower, Mezzanine floor, Mubarak Al Kabeer Street, Sharq and its postal address is PO Box 1393, Dasman 15464, Kuwait.

The intermediate parent company of Munshaat Real Estate Projects Company K.S.C.P, is Aref Investment Group S.A.K. (“Aref”), a closed shareholding company incorporated and domiciled in Kuwait.

The Group is principally engaged in managing real estate projects. The Parent Company’s primary objectives as per the Memorandum of Incorporation are, as follows:

- ▶ To own, sell and acquire real estate properties and land and develop the same for the Parent Company’s own account in the State of Kuwait and abroad; and to manage properties on behalf of third parties in accordance with the provisions stipulated under the existing laws and taking into consideration the restrictions stipulated under these laws.
- ▶ To own, sell and acquire shares and bonds of real estate companies for the Parent Company’s own account in Kuwait and abroad.
- ▶ To prepare studies and provide consultancy work of all types in the real estate field; provided that the service provider meets the prerequisites.
- ▶ To own and manage hotels, health clubs and touristic facilities and to rent and lease the same.
- ▶ To carry-out all maintenance works in the buildings and real estate properties owned by the Parent Company, including all civil, mechanical and electrical works, elevators and air conditioning works in a way that maintains the safety of such properties.
- ▶ To manage, operate, invest, lease and rent hotels, clubs, motels, entertainment houses, rest places, gardens, parks, exhibitions, restaurants, cafes, residential compounds, touristic and health spas, entertainment and sports facilities and stores at different levels and grades, including all principal and auxiliary services, appended facilities and other services required therefore.
- ▶ To organise real estate exhibitions related to the real estate projects of the Parent Company pursuant to the regulations set forth by the Ministry Commerce and Industry.
- ▶ To organise real estate auctions pursuant to the regulations set forth by the Ministry of Commerce and Industry.
- ▶ To own and manage commercial complexes and residential compounds.
- ▶ To establish and manage real estate investment funds after obtaining the approval of the Capital Markets Authority.
- ▶ To utilise available financial surplus by investing the same in portfolios managed by specialised companies and entities.

The Group carries out its activities in accordance with the principles of Islamic Sharī’a as approved by the Fatwa and Sharī’a board appointed by the Parent Company.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 1 CORPORATE AND GROUP INFORMATION (continued)

#### 1.2 GROUP INFORMATION

##### a) Subsidiaries

The consolidated financial statements of the Group include:

Name	Country of incorporation	% equity interest		Principal activities
		2018	2017	
<b>Directly held</b>				
Munshaat for Projects and Contracting Company Limited	KSA	100%	100%	Real estate and contracting
Al Reyada Real Estate Financial Centre Company W.L.L.	Kuwait	100%	100%	Real estate
Al Waha International Real Estate Projects Company K.S.C. (Closed)	Kuwait	100%	100%	Real estate
Al Safwa Joint Venture (“Safwa JV”)*	Kuwait	40%	40%	Real estate
MAS International General Trading & Contracting Company W.L.L. (“MAS International”)	Kuwait	100%	100%	General trading and contracting
Al Qebalah JV	Kuwait	62.11%	62.11%	Real estate
<b>Held by MAS International</b>				
MAS International Egypt W.L.L.	Egypt	100%	100%	Project management
MAS Al Oula W.L.L.	KSA	100%	100%	Project management
First MAS International Tours	Egypt	100%	100%	Project management

\* Even though the Group holds less than 50% equity interest in Safwa JV, the Parent Company has been appointed as the JV Manager and has exposure to variable returns (return on investment and management fees) and also, has the ability to affect those return through power over the investee. As a result, Safwa JV has been consolidated in the the Group's consolidated financial statements. See Note 14 for more details.

##### b) Associates

Name	Country of incorporation	% equity interest		Principal activities
		2018	2017	
The Zamzam 2013 JV ("Zamzam")	Kuwait	36.69%	36.69%	Real estate
Athman Al Khaliyya Company W.L.L. ("Athman")	Kuwait	32.60%	32.60%	Real estate

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The Group incurred a net loss of KD 31,948,022 for the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by KD 13,556,709. Further, the Group's accumulated losses amounted to KD 15,972,049 as at 31 December 2018.

Notwithstanding the above, management does not consider that these conditions indicate the existence of a material uncertainty regarding the Group's ability to continue as going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis taking into consideration the following assumptions:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 FUNDAMENTAL ACCOUNTING CONCEPT (continued)**

- ▶ During the current year, the Group has generated revenue from its hospitality operations of KD 10,617,787 (2017: KD 9,709,825). Further, the Group's associates generated revenue of KD 20,862,612 for the year then ended (2017: KD 21,414,903) as disclosed in Note 10. Management anticipates that its hospitality operations will continue generating positive operating cash flows.
- ▶ The Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements. Further, as disclosed in Note 15, the Parent Company was successful in obtaining a Tawarruq facility of KD 45.2 million from a local financial institution to settle the Ijara payable and related finance costs owed by a subsidiary, in addition to repay obligations arising from the tax claim. Management believes that the repayment of the facilities will occur as required and is confident that such repayments will be met out of operating cash flows.

As described above, management has a reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future and its ability to meet the mandatory repayment terms of the banking facilities as they fall due.

**2.2 BASIS OF PREPARATION**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a historical cost basis, except for leasehold property, investment properties, prepaid operating lease and investment securities that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is also the functional and presentation currency of the Parent Company.

**2.3 CHANGES IN ACCOUNTING POLICIES**

**New and amended standards and interpretations**

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**IFRS 9 - Financial Instruments**

The Group adopted IFRS 9 *Financial Instruments* on its effective date of 1 January 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

*a) Classification and measurement*

Except for certain accounts receivable, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), Amortised Cost (AC), or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

With respect to account receivables, the Group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model which is to hold the financial asset to collect the contractual cash flows which meets the SPPI criterion, these instruments shall be classified as at amortised cost under IFRS 9. Therefore, reclassification for these instruments is not required on initial adoption of IFRS 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3 CHANGES IN ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)**

Financial assets at fair value through profit or loss comprise equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at fair value through other comprehensive income and managed funds. Under IAS 39, the Group's equity securities were classified as AFS financial assets. As a result of the change in classification of the Group's equity investments, the AFS reserve related to those investments that were previously presented under accumulated OCI, was reclassified to Retained earnings at the date of initial application.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the profit or loss.

**(b) Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in Note 2.5 *Impairment of financial assets* under *Financial instruments*.

**(c) Hedge accounting**

The Group has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

**Transitional provisions**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The determination of expected credit losses on applicable financial assets.
  - The election of certain financial assets as measured at FVOCI.

The following table analyses the impact of transition to IFRS 9 on fair value reserve and retained earnings.

	<i>Fair value reserve KD</i>	<i>Retained earnings KD</i>
Closing balance under IAS 39 (31 December 2017)	1,338,442	9,598,957
<i>Impact on reclassification and re-measurements:</i>		
Reclassification of equity securities from AFS to FVOCI	(116,824)	116,824
Reclassification of equity securities from FVTPL to FVOCI	(1,273,232)	1,273,232
Reclassification of equity securities from AFS to FVTPL	(1,211,435)	1,211,435
Reclassification of equity securities from AFS to FVTPL in an associate	(59,024)	59,024
Opening balance under IFRS 9 on the date of initial application at 1 January 2018	<u>(1,322,073)</u>	<u>12,259,472</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3 CHANGES IN ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)****Transitional provisions (continued)*****Classification of financial assets and financial liabilities on the date of initial application of IFRS 9***

The following table shows reconciliation of original classification categories and carrying value in accordance with IAS 39 and the new classification categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39 KD</i>	<i>Transition adjustments (reclassification) KD</i>	<i>New carrying amount under IFRS 9 KD</i>
Investment securities	AFS	FVOCI	880,218	-	880,218
Investment securities	AFS	FVTPL	5,320,111	-	5,320,111
Investment securities	FVTPL	FVOCI	249,590	-	249,590
Trade and other receivables	Loans and receivables	Amortised cost	3,151,336	-	3,151,336
Bank balances	Loans and receivables	Amortised cost	4,637,943	-	4,637,943
<b>Total financial assets</b>			<b>14,239,198</b>	<b>-</b>	<b>14,239,198</b>

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

The application of the ECL model under IFRS 9 has not resulted in any changes to the carrying amounts of the Group's amortised cost financial assets.

**IFRS 15 Revenue from Contracts with Customers**

The Group adopted IFRS 15 *Revenue from Contracts with Customers* on its effective date of 1 January 2018. IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The adoption of IFRS 15 did not result in any significant change in accounting policies of the Group and did not have any material impact on the Group's consolidated financial statements.

**Amendments to IAS 40 Transfers of Investment Property**

The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the Group's investment property.



## 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

### *IFRS 16 - Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

### *Other amended standards and interpretations*

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- ▶ IFRIC 23 *Uncertainty over Tax Treatments*.
- ▶ Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- ▶ Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- ▶ Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- ▶ Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- ▶ Amendments to References to Conceptual Framework in IFRS Standards.
- ▶ IFRS 17 *Insurance Contracts*.

## 2.5 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**Business combinations and acquisition of non-controlling interests**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and acquisition of non-controlling interests (continued)**

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

**Revenue recognition**

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that in most of the revenue arrangements it is acting as a principal. The following specific recognition criteria must also be met before revenue is recognised.

- i. Revenue represents the revenue from hotel rooms, restaurants, and other facilities provided by the Group from the hospitality services. Revenue in respect of services is recognised when the service have been rendered to the customers.
- ii. Management fees, incentive fees, arrangement and advisory fees, and placement fees are recognised over time upon performance of services envisaged under the service agreements.
- iii. Commission income is recognised point in time upon completion of sales agreement.
- iv. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Events after the reporting period**

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

**Foreign currencies**

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities 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 in profit or loss.

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 the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies (continued)**

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

**Taxation**

**(i) Kuwait Foundation for the Advancement of Sciences (KFAS)**

The contribution to KFAS is calculated at 1% of the profit for the year attributable to the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

**(ii) National Labour Support Tax (NLST)**

NLST is calculated at 2.5% of the profit for the year attributable to the Parent Company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

**(iii) Zakat**

Contribution to Zakat is calculated at 1% of the profit for the year attributable to Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

**(iv) Taxation on overseas operations**

*Current tax*

Taxation on overseas operations is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these activities are undertaken.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

*Value Added Tax (VAT)*

Expenses and assets are recognised net of the amount of VAT, except:

- ▶ When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- ▶ When receivables and payables are stated with the amount of VAT included the net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Current versus non-current classification**

The Group presents assets and liabilities in the consolidated financial statements based on current/non-current classification. An asset is current when it is:

- ▶ Expected to be realised or intended to sold or consumed in the normal operating cycle;
- ▶ Held primarily for the purpose of trading;
- ▶ Expected to be realised within twelve months after the reporting period; or
- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in the normal operating cycle;
- ▶ It is held primarily for the purpose of trading;
- ▶ It is due to be settled within twelve months after the reporting period; or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**Furniture and equipment**

Furniture and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated on a straight line basis over the estimated useful life of assets to their residual values as follows:

- ▶ Furniture and fixtures      3 - 5 years
- ▶ Computer devices          3 - 4 years

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

Expenditure incurred to replace a component of an item of furniture and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off.



**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Furniture and equipment (continued)**

Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

An item of furniture and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

**Leases**

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for 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.

*Leases where the Group is a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of profit or loss. Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Increase in fair valuation is recorded as revaluation surplus within the comprehensive income. If a revaluation increase reverses a revaluation decrease that was previously recognised as an expense, it is credited to the profit or loss. Decrease in valuation should be charged to profit or loss, except to the extent that they reverse an existing revaluation surplus.

*Leases where the Group is a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating lease. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the statement of profit or loss due to its operating nature. 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 have earned.

**Investment properties**

Investment properties are initially measured at cost, including transaction costs. The carrying cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property. After the initial recognition, the investment properties are carried at fair value that is determined based on valuation performed by accredited independent valuers periodically using valuation methods consistent with the nature and usage of the investment property. Gains (losses) from change in the fair value are recognised in the consolidated statement of profit or loss. The Group obtains fair valuation of investment properties from two independent, accredited real estate valuers and consider the lower of two valuations as the fair value of the investment properties for recording in the books.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in statement of profit or loss in the period of derecognition.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in properties (continued)**

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

**Investment in associates**

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of results of associates' in the consolidated statement of profit or loss.

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

**Trading properties**

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

Cost comprises the purchase cost of the property and other costs incurred in association with the construction or development of property to bring it to the condition necessary to make the sale.

Net realisable value is the estimated selling price in the ordinary course of the business, less costs to completion and the estimated costs necessary to make the sale.

**Inventories**

Inventories representing sukouk (lease rights) are stated at the lower of book value and net realisable value. Book value is the original cost to the Group, on a specific identification basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments**

The Group has adopted IFRS 9 *Financial Instruments* effective from 1 January 2018. See section 2.3 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

**a) Recognition and initial measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**b) Classification and subsequent measurement**

*Financial assets - Policy effective from 1 January 2018 (IFRS 9)*

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ▶ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

**Financial assets – Business model assessment: Policy applicable from 1 January 2018**

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

**Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018**

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**b) Classification and subsequent measurement (continued)**

***Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018***

- |                                      |   |
|--------------------------------------|---|
| ▶ Financial assets at FVTPL          | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. This category includes unquoted equity investments and managed funds for which the Group had not irrevocably elected to classify at fair value through OCI.  |
| ▶ Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. The Group's financial assets at amortised cost include bank balances and cash, accounts receivable, wakala receivable. |
| ▶ Debt investments at FVOCI          | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.  |
| ▶ Equity investments at FVOCI        | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. Certain unquoted and quoted equity instruments are classified as FVOCI equity instruments.   |

***Financial assets – Policy applicable before 1 January 2018***

- |   |   |
|---|---|
| ▶ Financial assets at fair value through profit or loss | Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.   |
| ▶ Held-to-maturity financial assets                     | Measured at amortised cost using the effective interest method.   |
| ▶ Loans and receivables                                 | Measured at amortised cost using the effective interest method.   |
| ▶ Available-for-sale financial assets (AFS)             | Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss. |

**c) Financial liabilities**

***Initial recognition and measurement***

The accounting for financial liabilities remains largely the same as it was under IAS 39. Financial liabilities are classified as financial liabilities at fair value through profit or loss, loan and borrowings and payable, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include accounts payable, obligation under finance lease and accruals and Islamic finance payables. The Group did not have any financial liabilities at fair value through profit or loss as at the reporting date.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**c) Financial liabilities (continued)**

*Subsequent measurement*

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

*Islamic finance payable*

This is the category most relevant to the Group. After initial recognition, profit-bearing Islamic finance payable are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. The Group's Islamic finance payable includes (Tawarruq and Murabaha).

*Accounts payables*

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

**d) Derecognition**

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**d) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**Impairment of financial assets - Policy applicable from 1 January 2018**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the balances and the Group's economic environment.



**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Impairment of financial assets - Policy applicable from 1 January 2018 (continued)**

The management considers a financial asset in default when the contractual payments are 365 days past due. However, in certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Impairment of financial assets - Policy applicable before 1 January 2018**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Available-for-sale financial assets**

For available for sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**Impairment of non-financial assets**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Bank balances and cash**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of, cash in hand, bank balances, short-term deposits with an original maturity of three months or less.

**Fair value measurement**

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

Fair value of non-financial assets are based on valuation techniques determined by the independent valuers (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Employees' end of service benefits**

The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Group also makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**Contingencies**

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

**Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders.

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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

**3.1 Significant judgments**

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

***Classification of financial assets***

***Effective from 1 January 2018 (IFRS 9)***

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

***Effective before 1 January 2018 (IAS 39)***

Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, held to maturity, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.1 Significant judgments (continued)**

***Classification of real estate and leasehold property***

Management decides on acquisition of real estate whether it should be classified as trading property, property held for development, leasehold property or investment property.

The management classifies real estate as trading property if it is acquired principally for sale in the ordinary course of business.

The management classifies real estate as property under development if it is acquired with the intention of development.

The management classifies real estate as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use and as leasehold property if it is acquired for or the future use is estimated to be for operations and to generate operating cash flows.

***Impairment of available-for-sale financial assets***

***Effective before 1 January 2018 (IAS 39)***

The Group treats the available for sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group considered a decline of 30% to be significant and a period of 12 months to be prolonged.

***Going concern assessment***

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the necessary resources to continue in business for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

**3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Impairment of associates***

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

***Impairment of financial assets at amortised cost***

***Effective before 1 January 2018 (IAS 39)***

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

***Effective from 1 January 2018 (IFRS 9)***

The Group applies a simplified approach in calculating ECL for its accounts receivable. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****3.2 Estimates and assumptions (continued)*****Fair value measurement of financial instruments***

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

***Valuation of investment properties and leasehold property***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 8.

**4 OPERATING REVENUE AND COST**

	<b>2018</b>	<b>2017</b>
	<b>KD</b>	<b>KD</b>
<b>Operating revenue</b>		
Hotel revenue	<b>10,617,787</b>	9,709,825
<b>Operating costs</b>		
Hotel operating costs	<b>(6,819,875)</b>	(7,558,744)
Amortisation of leasehold property (Note 8)	<b>(3,835,345)</b>	(3,775,056)
	<b>(10,655,220)</b>	(11,333,800)

**5 GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses include staff costs of KD 1,964,779 (2017: KD 2,120,237).

**6 TAXATION**

On 5 January 2016, the Parent Company received a demand notice for SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT") – formerly known as the Department of Zakat and Income Tax ("DZIT"), in the Kingdom of Saudi Arabia ("KSA") for the years 2003 to 2013 claiming capital gains tax, corporate income tax, withholding tax and delay penalties ("tax claim").

The management of the Parent Company appointed a tax advisor in KSA to review the tax claim and file an objection letter with GAZT. Accordingly, the tax advisor filed an objection letter on 2 March 2016 with GAZT.

Based on the advice received from the tax advisor, the management of the Parent Company estimated and recorded a potential tax liability, including the aforementioned tax claim amounting to KD 30,444,311 in the consolidated statement of financial position as of the end of the immediately preceding financial year ended 31 December 2017.

The potential tax liability recognised represented management's best estimate of the tax liability attributable to the Parent Company and other related parties (together referred to as the "group entities") as of that date.

During the year ended 31 December 2018, the Parent Company received an offer from GAZT to settle the tax claim (the "offer") amounting to SAR 288,536,072 for the fiscal period from 2003 to 2013 and SAR 122,920,182 for the fiscal period from 2014 to 2017, totalling to an amount of SAR 411,456,254 (equivalent to KD 33,299,155).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**6 TAXATION (continued)**

The board of directors of the Parent Company in their meeting on 23 September 2018 resolved, on recommendation of the tax advisor, to accept the offer for the best interest of the Parent Company and invite the shareholders for an ordinary general meeting for approval. Further, the Parent Company formed an action committee to determine and allocate the tax liability attributable to each of the group entities and appointed an independent advisor to perform the allocation exercise. The allocation exercise was completed on 17 October 2018 and approved by the board of directors as of that date. Accordingly, the ordinary shareholders meeting on 21 October 2018 approved the board of directors' recommendation and authorised the directors to take the necessary measures to finalise the settlement.

As a result, the Group recognised an additional tax expense of SAR 26,368,485 (equivalent to KD 2,134,894) in the statement of profit or loss to reflect the tax settlement up to 31 December 2017. Income tax and Zakat charge for the year amounted to KD 2,345,127 (2017: KD 2,196,889). The Group has also recorded deferred tax liability charge of KD 5,459,819 (2017: KD Nil) in the consolidated statement of profit or loss.

At the reporting date, the Group assessed the underlying receivables from the Tax group entities for impairment based on objective evidence and the carrying amount is reduced by KD 1,832,207 through the use of an allowance account. Changes in the carrying amount of the allowances account are recognised in profit or loss.

During the year, the Group has settled the full amount to GAZT for the tax claims up to 31 December 2017.

**7 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE**

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2018	2017
(Loss) profit for the year attributable to the equity holders of the Parent Company (KD)	(28,231,521)	4,311,932
Weighted average number of ordinary shares outstanding during the year (shares)	322,000,000	322,000,000
<b>Basic and diluted (loss) profit earnings per share attributable to the equity holders of the Parent Company</b>	<b>(88) fils</b>	<b>13 fils</b>

As there are no dilutive instruments outstanding, therefore, basic and diluted (loss) earnings per share are identical.

**8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES****a. Leasehold property**

Leasehold property represents "Qebalah Tower", a property located in KSA and is operating as hotel through an agreement with an internationally reputed hotel operator.

The movement in leasehold property is as follows:

	2018 KD	2017 KD
As at 1 January	92,348,445	69,584,596
(Provision for) reversal of impairment	(16,992,258)	6,541,543
Revaluation (loss) gain	(6,112,532)	6,112,532
Amortisation (Note 4)	(3,835,345)	(3,775,056)
Additions	575,913	14,397,863
Net foreign exchange difference	391,016	(513,033)
As at 31 December	66,375,239	92,348,445

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**
**a. Leasehold property (continued)**

At the reporting date, management has determined the fair value of the leasehold property, based on external valuations by accredited independent valuers, using discounted cash flows and terminal value model as there is a lack of comparable market data because of the nature of the properties.

The leasehold property is amortised over the remaining period of the lease from the date when the asset is put to use. As at the reporting date, the remaining period of the lease was 23 years (2017: 24 years).

**b. Investment properties**

The movement in investment properties is as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
As at 1 January	17,880,374	18,887,585
Addition	-	3,634,071
Disposal	-	(3,634,071)
Change in fair value	(2,292,859)	(877,196)
Net foreign exchange differences	34,229	(130,015)
As at 31 December	<u>15,621,744</u>	<u>17,880,374</u>

The fair value of properties located in KSA are determined using a discounted cash flow method ("DCF"). The fair value of the property located in the State of Kuwait is determined using the market comparable approach. The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and experience in the locations and categories of the properties being valued. The valuation models applied are consistent with the principles in IFRS 13.

Investment properties with a carrying value of KD 9,231,425 (2017: KD 10,550,000) are pledged against Islamic finance payables (Note 15).

Net income from investment properties in the consolidated statement of profit or loss includes the following:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Change in fair values of investment properties	(2,292,859)	(877,196)
Net rental income	<u>1,987,301</u>	<u>2,071,546</u>
	<u>(305,558)</u>	<u>1,194,350</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**

Description of valuation techniques used and key unobservable made in determining the valuation of leasehold property and investment properties:

Type of property	Valuation technique	Significant unobservable inputs	2018	Range	2017
<b>a. Leasehold property</b>					
Qebalah Tower - KSA					
• Hotel	DCF	<ul style="list-style-type: none"> <li>▶ Estimated Average room rate in Saudi Riyals (SAR)</li> <li>▶ Long term RevPAR growth*</li> <li>▶ Occupancy rate</li> <li>▶ Discount rate</li> <li>▶ Inflation rate</li> <li>▶ Gross operating profit</li> </ul>	475 - 610 1.5% - 12% 72% - 76% 11.50% 3% 52% - 60%	512 - 710 3% - 10.5% 69% - 74% 11.25% 3.5% 40% - 70%	
• Shopping center	DCF	<ul style="list-style-type: none"> <li>▶ Estimated yearly rent in SAR per square metre</li> <li>▶ Occupancy rate</li> <li>▶ Discount rate</li> </ul>	6,577 50% - 95% 10.50%	6,500 65% - 95% 11.15%	
<b>b. Investment properties</b>					
• Land in the State of Kuwait	▶ Market comparison approach	▶ Price per square metre	KD 3,500 – KD 3,750	KD 4,000 – KD 4,200	
• 6 floors in Al Safwa Tower, KSA	▶ DCF	The fair value is determined based on DCF method, using contractually fixed cash flows and discount rate of 11.50% (2017:11.5%).			

\*RevPAR = Revenue Per Available Room.

Under market comparison approach, fair value is estimated based on comparable transactions. The market comparison approach is based upon the principal of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm').

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value, if any. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, if any, is then discounted.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**8 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)**

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by:

- A directionally similar change in the long term vacancy rate (and exit yield)
- An opposite change in the rent growth per annum and discount rate.

Quantitative disclosures of fair value measurement hierarchy for leasehold property and investment properties as at 31 December 2018 are as follows:

	<u>Fair value measurement using</u>	
	<i>Total</i>	<i>Significant unobservable inputs (Level 3)</i>
	<i>KD</i>	<i>KD</i>
<b>2018</b>		
<b>Leasehold property</b>		
KSA	66,375,239	66,375,239
<b>Investment properties</b>		
State of Kuwait	9,231,425	9,231,425
KSA	6,390,319	6,390,319
<b>2017</b>		
<b>Leasehold property</b>		
KSA	92,348,445	92,348,445
<b>Investment properties</b>		
State of Kuwait	10,550,000	10,550,000
KSA	7,330,374	7,330,374

**9 PREPAID OPERATING LEASE**

Prepaid operating lease represents additional operating cash flows from a leasehold property "Zamzam Tower" for a period of 5 months starting on 10 October 2029 to 28 February 2030.

During the current year, the Parent Company has performed a fair value assessment of the of prepaid operating lease and no change in the fair value was recognised (2017: decrease of KD 269,710).

**10 INVESTMENT IN ASSOCIATES**

	<i>Country of domicile</i>	<i>Percentage of Ownership interest</i>		<i>Carrying amount</i>	
		<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
				<i>KD</i>	<i>KD</i>
The Zamzam 2013 JV ("Zamzam")	Kuwait	36.69%	36.69%	28,283,208	29,518,646
Athman Al Khaliyya Company W.L.L. ("Athman")	Kuwait	32.60%	32.60%	4,514,843	4,667,035
				<u>32,798,051</u>	<u>34,185,681</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**10 INVESTMENT IN ASSOCIATES (continued)**

The movement in the carrying amount of investment in associates during the year is as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
As at 1 January	34,185,681	39,734,702
Capital redemption	(4,192,019)	(2,387,252)
Dividends received	(399,651)	-
Share of results*	3,028,390	(1,115,000)
Share of other comprehensive income	5,820	1,683
Share of revaluation reserve	-	(1,466,980)
Exchange difference on translation of foreign operations	169,830	(581,472)
As at 31 December	<u>32,798,051</u>	<u>34,185,681</u>

- \* During the year, management of the Parent Company reassessed the allocation of the tax claim between one of the associates of the Group and the Parent Company. This reassessment has resulted in additional tax liability of KD 2,207,626 to the Parent Company which has been included the share of results of associates in the consolidated statement of profit or loss.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 10 INVESTMENT IN ASSOCIATES (continued)

The following table provides summarised financial information of the Group's investment in associates before inter-company eliminations/adjustments, which are accounted for using the equity method:

	Zamzam		Athman		Total	
	2018	2017	2018	2017	2018	2017
	KD	KD	KD	KD	KD	KD
Non-current assets	82,528,810	96,998,223	12,269,759	12,996,728	94,798,569	109,994,951
Current assets	10,375,231	23,593,935	1,583,179	1,335,492	11,958,410	24,929,427
Current liabilities	(11,027,996)	(27,349,407)	(3,726)	(16,163)	(11,031,722)	(27,365,570)
Equity	81,876,045	93,242,751	13,849,212	14,316,057	95,725,257	107,558,808
Group's ownership interest	36.69%	36.69%	32.60%	32.60%	-	-
Group's share in equity	30,040,321	34,210,765	4,514,843	4,667,035	34,555,164	38,877,800
Revenues	20,121,310	20,226,511	741,302	1,188,392	20,862,612	21,414,903
Cost of revenue	(10,995,745)	(10,944,685)	-	-	(10,995,745)	(10,944,685)
Amortisation and/or impairment	(15,081,106)	(11,528,839)	-	-	(15,081,106)	(11,528,839)
General and administrative expenses and (charge) / reversal of taxes	940,935	(7,834,534)	-	(12,384)	940,935	(7,846,918)
(Loss) profit for the year	(5,014,606)	(10,081,547)	741,302	1,176,008	(4,273,304)	(8,905,539)

The carrying amount of Zamzam is adjusted to eliminate a downstream transaction of KD 1,757,113 (2017: KD 4,692,119).

As at 31 December 2018, the associates had no contingent liabilities or capital commitments (2017: Nil).

The above associates are unquoted and there is no quoted market prices available for its shares. Management believes that the carrying amounts of the investments are not significantly different from the recoverable amounts and accordingly, no impairment loss was recognised.

There are no material contingent liabilities relating to the Group's interest in the associates.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 11 INVESTMENT SECURITIES

	2018 KD	2017 KD
<i>New classification under IFRS 9</i>		
Financial assets designated at fair value through profit or loss	4,953,030	-
Financial assets designated at fair value through other comprehensive income	853,082	-
<i>Original classification under IAS 39</i>		
Financial assets designated at fair value through profit or loss	-	249,590
Available-for-sale financial asset	-	6,200,329
	<u>5,806,112</u>	<u>6,449,919</u>

Upon adoption of IFRS 9, certain financial assets available for sale were classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as at 1 January 2018 (Note 2.3).

### 12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018 KD	2017 KD
Trade receivables	8,098,768	5,256,656
Less: Allowance for expected credit losses (2017: provision for impairment of trade receivables)	<u>(4,696,213)</u>	<u>(2,850,182)</u>
	3,402,555	2,406,474
Amounts due from related parties (Note 18)	2,920,245	12,193,575
Advances to contractors	1,669,458	2,254,747
Prepaid expenses	25,435	56,250
Other receivables	295,964	744,862
	<u>8,313,657</u>	<u>17,655,908</u>

As at 31 December 2018, trade receivables of KD 4,696,213 (2017: KD 2,850,182) were impaired and fully provided. These mainly relate to customers, which are in unexpectedly difficult economic situations. The Group does not hold any collateral as security. The other classes within accounts receivable do not contain impaired assets. Trade receivables are non-interest bearing and are generally repayable on terms of 30-90 days.

Note 21.1 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables. Other classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Movements in the impairment allowance for trade receivables are as follows:

	2018 KD	2017 KD
At 1 January (under IAS 39)	2,850,182	2,817,812
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9 (Note 2.3)	-	-
Opening provision for impairment of trade receivables	2,850,182	2,817,812
Allowance recognised in profit or loss during the year (Note 6)	1,850,053	43,168
Reversal of provision for impairment of trade receivables	<u>(4,022)</u>	<u>(10,798)</u>
At 31 December	<u>4,696,213</u>	<u>2,850,182</u>

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 13 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES

#### (i) Share capital

	Number of shares		Authorised, issued and fully paid	
	2018	2017	2018 KD	2017 KD
Shares of 100 fils each (paid in cash)	<u>322,000,000</u>	<u>322,000,000</u>	<u>32,200,000</u>	<u>32,200,000</u>

#### (ii) Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year attributable to the shareholders of the Parent Company (before tax and board of directors' remuneration) shall be transferred to the statutory reserve (based on the recommendation of the Parent Company's board of directors). The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital.

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

#### (iii) Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution at the ordinary general assembly upon a recommendation by the board of directors. There are no restrictions on distribution from voluntary reserve.

### 14 MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interest is provided below:

Name	Country of domicile	Non-controlling interest	
		2018	2017
Al Safwa Joint Venture ("Safwa JV")	Kuwait	60%	60%
Al Qebalah JV ("Qebalah JV")	Kuwait	37.89%	37.89%
		2018 KD	2017 KD
<b>Accumulated balance of material non-controlling interest:</b>			
Al Safwa Joint Venture ("Safwa JV")		4,854,031	5,102,474
Al Qebalah JV		(6,445,249)	(2,562,838)
		<u>(1,591,218)</u>	<u>2,539,636</u>
<b>Profit (loss) allocated to material non-controlling interest:</b>			
Al Safwa Joint Venture ("Safwa JV")		234,889	96,397
Al Qebalah JV		(3,951,390)	2,441,735

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 14 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

#### Summarised statement of profit or loss:

	Qeblah JV		Safwa JV	
	2018	2017	2018	2017
	KD	KD	KD	KD
Revenue	5,545,212	4,910,923	1,987,301	2,071,546
Cost of revenue	(4,493,071)	(5,220,212)	(99,365)	(103,429)
Other income (loss)	119,257	(433,160)	9,410	4,863
Valuation (loss) gain	(10,215,774)	6,337,300	(974,284)	(877,196)
Finance costs	(1,369,587)	(1,251,519)	-	-
Administrative expenses	(14,621)	(32,405)	(532,228)	(935,388)
Gain on sale of leasehold property	-	2,133,344	-	-
<b>(Loss) profit for the year</b>	<b>(10,428,584)</b>	<b>6,444,271</b>	<b>390,834</b>	<b>160,396</b>
<b>Total comprehensive (loss) income</b>	<b>(10,428,584)</b>	<b>6,444,271</b>	<b>390,834</b>	<b>160,396</b>
Attributable to non-controlling interests	(3,951,390)	2,441,735	234,889	96,397

#### Summarised statement of financial position:

	Qeblah JV		Safwa JV	
	2018	2017	2018	2017
	KD	KD	KD	KD
Investment properties	-	-	6,390,319	7,330,374
Leasehold property	32,837,280	44,610,720	-	-
Accounts receivable	1,517,094	3,405,048	1,639,528	1,349,651
Other current assets	146,700	145,772	954,826	1,142,173
<b>Total assets</b>	<b>34,501,074</b>	<b>48,161,540</b>	<b>8,984,673</b>	<b>9,822,198</b>
Accounts payable	51,511,497	54,925,430	908,001	1,332,106
<b>Total liabilities</b>	<b>51,511,497</b>	<b>54,925,430</b>	<b>908,001</b>	<b>1,332,106</b>
<b>(Deficit of funds) total equity</b>	<b>(17,010,423)</b>	<b>(6,763,890)</b>	<b>8,076,672</b>	<b>8,490,092</b>
<b>Attributable to:</b>				
Equity holders of Parent Company	(10,565,174)	(4,201,052)	3,222,641	3,387,618
Non-controlling interests	(6,445,249)	(2,562,838)	4,854,031	5,102,474
	<b>(17,010,423)</b>	<b>(6,763,890)</b>	<b>8,076,672</b>	<b>8,490,092</b>

#### Summarised cash flow information for the year ended 31 December:

	Qeblah JV		Safwa JV	
	2018	2017	2018	2017
	KD	KD	KD	KD
Operating activities	5,262,950	(571,834)	946,539	4,606,094
Investing activities	(316,950)	(142,597)	1,216,422	(127,940)
Financing activities	(4,945,410)	790,631	(2,800,000)	(4,060,000)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>590</b>	<b>76,200</b>	<b>(637,039)</b>	<b>418,154</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**15 ISLAMIC FINANCE PAYABLES**

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
<b>Current</b>		
Murabaha payable	5,405,407	5,707,204
Tawarruq payable*	2,180,000	-
Ijara payable	-	1,492,278
Less: deferred finance cost	-	(1,798)
	<u>7,585,407</u>	<u>7,197,684</u>
<b>Non-current</b>		
Tawarruq payable*	43,054,000	-
Ijara payable	-	19,928,194
	<u>43,054,000</u>	<u>19,928,194</u>
	<u>50,639,407</u>	<u>27,125,878</u>

\* During the year, the Group obtained a non-revolving tawarruq facility of KD 45.2 million from a local financial institution to settle the Ijara payable and related finance costs owed by a subsidiary, in addition to repay obligations arising from the tax claim (Note 17). The facility is repayable over a period of 10 years in annual instalments starting from 1 December 2019 and maturing on 1 December 2028.

Islamic finance payables bear an average finance cost of 6% (2017: 5.9%) per annum and are denominated in Kuwaiti Dinar.

Murabaha payables are secured over certain of the Group's investment properties (Note 8). The tawarruq facility is secured over certain of the Group's investment properties, investment in associate and subsidiaries for which the legal formalities are still in progress as at the authorisation date of these consolidated financial statements.

Banking covenants vary according to each loan agreement. A future breach of covenant may require the Group to repay the Islamic finance payable on demand. During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

**Changes in liabilities arising from financing activities:**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
<b>As at 1 January</b>	27,125,878	26,246,096
<i>Cash flows:</i>		
Repayments of borrowings	(23,207,003)	(630,890)
Proceeds from borrowings	45,234,000	-
<i>Non-cash movements:</i>		
Foreign exchange movement	110,032	(77,144)
Finance costs	1,376,500	1,587,816
<b>As at 31 December</b>	<u>50,639,407</u>	<u>27,125,878</u>

Information about the Group's exposure to profit rate, foreign currency and liquidity risks is included in Note 21.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 16 OBLIGATIONS UNDER FINANCE LEASE

	2018 KD	2017 KD
Lease obligations	16,182,359	16,421,602
Less: current portion	(1,295,840)	(1,289,121)
Long term obligations under finance lease	14,886,519	15,132,481

Obligations under finance lease relates to Qebalah tower - KSA and represent the future instalments due for the lease payments for property interests acquired under finance lease which is classified as leasehold property. The instalments due to be settled within twelve months after the reporting date, are classified current. The minimum lease payments of gross finance lease obligation are as follows:

	2018 KD	2017 KD
2018	-	1,289,121
2019	1,295,840	1,289,120
2020	1,295,840	1,289,120
2021	1,295,840	1,289,120
Thereafter	25,916,800	25,782,400
Total minimum lease payments	29,804,320	30,938,881
Less: future finance charges	(13,621,961)	(14,517,279)
Present value of minimum finance lease rental payments	16,182,359	16,421,602
Current portion of lease obligations	(1,295,840)	(1,289,121)
Non-current obligations under finance lease	14,886,519	15,132,481

Changes in obligations under finance lease is as follows:

	2018 KD	2017 KD
As at 1 January	16,421,602	1,779,115
Additions	-	15,693,658
Finance cost	966,988	327,305
Repayments	(1,294,880)	(1,334,149)
Net foreign exchange difference	88,649	(44,327)
As at 31 December	16,182,359	16,421,602

### 17 ACCOUNTS PAYABLE AND ACCRUALS

	2018 KD	2017 KD
Payables to contractors for investment properties and leasehold property	1,742,025	1,732,843
Amounts due to related parties (Note 18)	480,898	3,195,490
Accrued expenses	727,712	794,499
Advances from customers	1,266,193	1,300,921
Payable to leasehold property manager and maintenance contractor	4,934,099	4,908,511
Current tax provision and deferred tax liability (Note 6)	8,771,311	30,444,311
Other payables	6,886,514	6,156,472
	24,808,752	48,533,047



# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

### 18 RELATED PARTY DISCLOSURES

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties including hotel operator. Pricing policies and terms of these transactions are approved by the Parent Company's management.

The following tables show the aggregate value of transactions and outstanding balances with related parties:

Statement of profit or loss	Major shareholder of the Ultimate Parent Company KD	Ultimate Parent Company KD	Associates KD	Others KD	2018 KD	2017 KD	
Management fees	-	-	376,838	352,717	729,555	401,479	
Finance income	10,921	-	-	-	10,921	26,572	
Finance costs	(1,253,199)	-	-	-	(1,253,199)	(1,251,519)	
Management fees	-	-	-	(338,568)	(338,568)	(300,628)	
Income from partial disposal of a leasehold property	-	-	-	-	-	2,133,344	
Statement of financial position	Major shareholder of the Ultimate Parent Company KD	Ultimate Parent company KD	Major shareholders KD	Associates KD	Others KD	2018 KD	2017 KD
Financial asset at fair value through profit or loss	-	-	-	-	3,589,713	3,589,713	249,590
Financial asset at fair value through other comprehensive income	-	-	204,982	-	648,100	853,082	-
Available-for-sale financial assets	-	-	-	-	-	-	3,828,238
Bank balances and cash	3,764,362	-	-	-	-	3,764,362	2,308,177
Accounts receivable and prepayments	-	267,105	-	399,651	2,253,489	2,920,245	12,193,575
Accounts payable and accruals	-	-	407,452	-	73,446	480,898	3,195,490
Islamic finance payables (Note 15)	45,234,000	-	-	-	-	45,234,000	21,420,471

Included within related party receivables and payables are KD 1,796,160 (2017: KD 21,573,533) related to GAZT tax claim allocated to certain Group entities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**18 RELATED PARTY DISCLOSURES (continued)****Term and conditions of transactions with related parties**

Transactions with related parties are made on terms approved by the management. Outstanding balances, except Islamic finance payable, at the year-end are unsecured and interest free and settlement occurs in cash. Except for Islamic finance payables disclosed in Note 15, there have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recognised any provision for expected credit losses (2017: Nil) relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**Transactions with key management personnel**

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows.

	<i>Balance outstanding as at</i>		<i>Transaction values for the</i>	
	<i>31 December</i>		<i>year ended</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
<i>Compensation of key management personnel of the Group</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	193,854	173,203	558,272	694,922
Post-employment benefits	342,422	395,672	89,054	42,926
	<u>536,276</u>	<u>568,875</u>	<u>647,326</u>	<u>737,848</u>

The board of directors proposed directors' remuneration for the year ended 31 December 2018 KD Nil (2017: KD 65,000).

**19 SEGMENT INFORMATION**

The Group, including associate entities as disclosed in Note 10, are primarily engaged in real estate activities. Geographically, Group's assets are located in GCC predominantly in Kuwait and KSA, as a result, no segment information is provided.

**20 COMMITMENTS AND CONTINGENCIES*****Legal claim contingency***

During the year ended 31 December 2015, the contractor of one of the properties of the Group in KSA has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from the Parent Company for the delay in the execution of a certain project and various other related costs associated with the project. The Parent Company has filed a counter claim for an amount of SAR 627 million (equivalent to KD 51 million) against the same contractor for the delay in handing over the project and the operational losses incidental to the delay. The dispute has been referred to the Saudi Arbitration Committee ("SAC") and the trial proceedings are still in progress as at the authorisation date of these consolidated financial statements. However due to the considerable discrepancy in the technical reports submitted by the two parties in dispute, a specialised technical expert was appointed by SAC whose report issued on 20 March 2018 supported the Parent Company's position to a large extent.

The Group has been advised by its legal counsel that it is only possible, but not probable, that the action against the Group will succeed. Accordingly, no provision for any liability has been made in these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial liabilities, comprise bank borrowings and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include receivables and cash and balances that derive directly from its operations. The Group also holds investments in equity instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Parent Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

**21.1 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Accounts receivable*	6,618,764	15,344,911
Wakala receivable	198,019	541,669
Bank balances	5,575,413	4,637,943
	<u>12,392,196</u>	<u>20,524,523</u>

\* excluding advances to contractor and prepaid expenses.

***Accounts receivable***

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

The Group's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in Note 12.

***Bank balances and wakala receivables***

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

Impairment on bank balances and wakala receivables has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balances and wakala receivables have low credit risk based on the external credit ratings of the counterparties.

# Munshaat Real Estate Projects Company K.S.C.P and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

### 21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 21.1 Credit risk (continued)

##### Concentration of financial assets

The distribution of financial assets by geographic region for 2018 and 2017 is as follows:

	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total KD</i>
<i>At 31 December 2018</i>			
Accounts receivable*	3,544,527	3,074,237	6,618,764
Wakala receivable	198,019	-	198,019
Bank balances	5,043,764	531,649	5,575,413
	<b>8,786,310</b>	<b>3,605,886</b>	<b>12,392,196</b>
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total KD</i>
<i>At 31 December 2017</i>			
Accounts receivable*	11,507,808	3,837,103	15,344,911
Wakala receivable	541,669	-	541,669
Bank balances	3,750,362	887,581	4,637,943
	<b>15,799,839</b>	<b>4,724,684</b>	<b>20,524,523</b>

\*Excluding advances to contractor, prepaid expenses and deferred tawarruq payable

##### Comparative information under IAS 39

In the prior year, the impairment of accounts 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. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- ▶ significant financial difficulties of the debtor
- ▶ probability that the debtor will enter bankruptcy or financial reorganisation, and
- ▶ default or late payments (more than 90 days overdue).

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

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows:

	<i>Total KD</i>	<i>Neither past due nor impaired KD</i>	<i>Past due but not impaired</i>				
			<i>&lt; 30 days KD</i>	<i>30 – 60 days KD</i>	<i>60 – 90 days KD</i>	<i>90 – 120 days KD</i>	<i>More than 120 days KD</i>
31 December 2017	2,406,474	-	366,864	163,258	207,231	90,000	1,579,121

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****21.1 Credit risk (continued)***Expected credit loss assessment for trade receivables as at 1 January 2018 and 31 December 2018*

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security.

*Other receivables and amount due from a related party*

As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

**21.2 Liquidity risk**

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

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. Approximately 19% of the Group's debt will mature in less than one year at 31 December 2018 (2017: 27%) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's undiscounted financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

<b>2018</b>	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
Obligations under finance lease	-	-	1,295,840	28,508,480	29,804,320
Islamic finance payables	5,405,407	-	4,894,040	56,629,513	66,928,960
Accounts payable and accruals*	950,228	1,695,847	2,517,800	3,942,135	9,106,010
<b>TOTAL UNDISCOUNTED LIABILITIES</b>	<b>6,355,635</b>	<b>1,695,847</b>	<b>8,707,680</b>	<b>89,080,128</b>	<b>105,839,290</b>
<b>2017</b>	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
Obligations under finance lease	-	-	1,289,120	29,649,760	30,938,880
Islamic finance payables	11,302,546	-	-	15,825,130	27,127,676
Accounts payable and accruals*	399,069	895,015	14,487,595	202,559	15,984,238
<b>TOTAL UNDISCOUNTED LIABILITIES</b>	<b>11,701,615</b>	<b>895,015</b>	<b>15,776,715</b>	<b>45,677,449</b>	<b>74,050,794</b>

\* excluding advances from customers, provisions and accrued expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****21.3 Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: profit rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, other payables, cash at bank, equity investments and certain accounts receivable.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**21.3.1 Profit rate risk**

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in profit rates relates primarily to the Group's Islamic finance payables.

The Group's policy is to manage its finance cost by availing competitive credit facilities from local financial institutions and constantly monitoring profit rate fluctuations.

*Exposure to profit rate risk*

The profit rate profile of the Group's profit-bearing financial instruments as reported to the management of the Group is as follows.

	2018 KD	2017 KD
<b>Fixed-rate instruments</b>		
Financial assets	198,019	541,669
Financial liabilities	16,182,359	37,842,076
	<u>16,380,378</u>	<u>38,383,745</u>
<b>Variable-rate instruments</b>		
Financial assets	-	-
Financial liabilities	50,639,407	5,705,404
	<u>50,639,407</u>	<u>5,705,404</u>

*Profit rate sensitivity*

A reasonably possible change of 100 basis points in profit rates at the reporting date would have resulted in a increase in loss for the year by KD 506,394 (2017: KD 57,054). This analysis assumes that all other variables, remain constant.

**21.3.2 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD, primarily United States Dollars ("USD") and Saudi Riyals ("SAR"). The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's investments.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****21.3 Market risk (continued)****21.3.2 Foreign currency risk (continued)**

The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets and liabilities at the reporting date:

	<b>2018</b>	<b>2017</b>
	<b>KD</b>	<b>KD</b>
SAR	(7,567,166)	(9,729,439)
USD	7,081,488	7,382,395

*Foreign currency sensitivity*

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit or loss and other comprehensive income due to changes in the fair value of monetary assets and liabilities is as follows:

<b>Currency</b>	<b>Change in exchange rate</b>	<i>Effect on other comprehensive income (relates to monetary financial assets and liabilities)</i>		<i>Effect on profit or loss (relates to monetary financial assets and liabilities)</i>	
		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
		<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
SAR	+5%	-	-	(378,358)	(486,472)
USD	+5%	61,058	217,680	293,016	151,440

An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

**21.3.3 Equity price risk**

The Group's equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities.

At the reporting date, the exposure to non-listed equity investments at fair value was KD 5,601,130 (2017: KD 6,200,329). Sensitivity analyses of these investments have been provided in Note 22.

The majority of the Group's listed equity investments are publicly traded and are included in the Kuwait Stock Exchange ("Boursa Kuwait")

The table below summarises the impact of increases/decreases of the KSE price index on the Group's profit or loss. The analysis is based on the assumption that the equity index had increased or decreased by 5% and 5% respectively, with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes..

<b>Market indices</b>	<i>Effect on profit or loss</i>	
	<b>2018</b>	<b>2017</b>
	<b>KD</b>	<b>KD</b>
Boursa Kuwait	15,476	21,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**22 FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's senior management determines the policies and procedures for recurring fair value measurement, such as investment properties, leasehold properties and equity investments.

External valuers are involved for valuation of significant assets, such as investment properties and leasehold properties. Involvement of external valuers is decided upon annually by the senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The Group measures financial instruments such as investment in equity securities and mutual funds, and non-financial assets such as investment and leasehold properties, at fair value at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value, including the valuation methods, significant estimates and assumptions are disclosed below.

Set out below that are a summary of financial instruments and non-financial assets measured at fair value on a recurring basis, other than those with carrying amounts that are reasonable approximations of fair values:



**22 FAIR VALUE MEASUREMENT (continued)**

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
<b><i>Financial instruments</i></b>		
Investment securities (at fair value)		
Quoted equity securities	204,982	249,590
Unquoted equity securities	4,237,813	4,708,456
Unquoted funds	1,221,163	1,082,614
	<u>5,663,958</u>	<u>6,040,660</u>
	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
<b><i>Non-financial assets</i></b>		
Investment properties	15,621,744	17,880,374
Leasehold properties	66,375,239	92,348,445
	<u>81,996,983</u>	<u>110,228,819</u>

Management assessed that the fair value of the following financial assets and liabilities approximate their carrying amounts:

- ▶ Cash and bank balances
- ▶ Accounts receivables
- ▶ Wakala receivables
- ▶ Islamic finance payable
- ▶ Accounts payable and other liabilities

**Valuation methods and assumptions**

The following methods and assumptions were used to estimate the fair values:

*Listed investment in equity securities*

Fair values of publicly traded equity securities are based on quoted market prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

*Unlisted equity investments*

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group determines the fair value of its investment based on its share of the net book value of each investee company, since the underlying assets of these investee companies are either investment properties or leasehold properties that are measured at fair value at the reporting date using valuation methods consistent with the principles in IFRS 13 'Fair Value Measurement'. The Group classifies the fair value of these investments as Level 3.

*Unquoted funds*

The Group invests in managed funds, including private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The management considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate. Therefore, the net asset value (NAV) of these investee funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the investee fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the investee fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the investee fund, the Group classifies these funds as Level 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**22 FAIR VALUE MEASUREMENT (continued)**

The fair value of investment properties and leasehold properties was assessed by accredited independent real estate experts with recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. The valuation models applied are consistent with the principles in IFRS 13 'Fair Value Measurement' and fair value is determined using market comparison approach, income capitalisation method and discounted cash flows method considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Fair value of properties operated as hotels is determined by discounting the free cashflows from the hotel operations until the end of the lease period using an appropriate discount rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). The fair value of investment and leasehold properties is included within Level 3.

**22.1 Financial instruments*****Fair value hierarchy***

The following tables provide the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

	Fair value measurement using			
	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
<b>31 December 2018</b>	<b><i>Total KD</i></b>	<b><i>KD</i></b>	<b><i>KD</i></b>	<b><i>KD</i></b>
Financial assets at fair value through profit or loss	4,953,030	-	-	4,953,030
Financial assets at fair value through other comprehensive income	853,082	204,982	-	648,100
	<u>5,806,112</u>	<u>204,982</u>	<u>-</u>	<u>5,601,130</u>
	Fair value measurement using			
	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
<b>31 December 2017</b>	<b><i>Total KD</i></b>	<b><i>KD</i></b>	<b><i>KD</i></b>	<b><i>KD</i></b>
Available-for-sale financial assets	6,200,329	-	-	6,200,329
Financial assets at fair value through profit or loss	249,590	249,590	-	-
	<u>6,449,919</u>	<u>249,590</u>	<u>-</u>	<u>6,200,329</u>

There were no transfers between any levels of the fair value hierarchy during 2018 or 2017.

**Reconciliation of Level 3 fair values**

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**22 FAIR VALUE MEASUREMENT (continued)****22.1 Financial instruments (continued)**

<b>2018</b>	<b>Financial assets at FVOCI KD</b>	<b>Financial assets at FVTPL KD</b>	<b>Total KD</b>
As at 1 January 2018 (IFRS 9)	880,218	5,320,111	6,200,329
Remeasurement recognised in OCI	(232,118)	-	(232,118)
Remeasurement recognised in profit or loss	-	141,623	141,623
Purchases / sales (net)	-	(508,704)	(508,704)
<b>As at 31 December 2018</b>	<b>648,100</b>	<b>4,953,030</b>	<b>5,601,130</b>
		<b>Available- for-sale financial assets KD</b>	<b>Total KD</b>
<b>2017</b>			
As at 1 January 2017		6,284,559	6,284,559
Remeasurement recognised in OCI		(80,890)	(80,890)
Impairment recognised in profit or loss		(412,600)	(412,600)
Purchases / sales (net)		-	-
<b>As at 31 December 2017</b>		<b>5,791,069</b>	<b>5,791,069</b>

**Sensitivity analysis**

The Group invests in entities that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a NAV based valuation technique for these positions. The NAV of the investments is adjusted, when necessary, to reflect considerations such as market liquidity discounts and other specific factors related to the investments. Accordingly, such instruments are included within Level 3.

Significant increases (decreases) in the reported NAV for the investees would result in a significantly higher (lower) fair value on a linear basis.

**22.2 Non-financial assets**

Non-financial assets consists of leasehold property and investment properties. The fair value of the leasehold property and investment properties is categorised under level 3 of the fair value hierarchy.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2018 and 2017 are disclosed in Note 8.

The reconciliation of the opening and closing balances of the level 3 category of the fair value hierarchy is disclosed in Note 8 to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

**23 CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic finance payables, obligations under finance leases, accounts payable and accruals, less bank balances and cash as reported in the consolidated statement of financial position. Total capital represents equity attributable to the Parent Company.

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Islamic finance payables	50,639,407	27,125,878
Obligations under finance leases	16,182,359	16,421,602
Accounts payable and accruals	24,808,752	48,533,047
Less: Bank balance and cash	(5,575,413)	(4,637,943)
<b>Net debt</b>	<b>86,055,105</b>	<b>87,442,584</b>
<b>Total capital</b>	<b>46,808,639</b>	<b>81,282,058</b>
<b>Capital and debt</b>	<b>132,863,744</b>	<b>168,724,642</b>
Gearing ratio	65%	52%

**24 PROPOSED DIVIDENDS**

- ▶ The Board of Directors in their meeting held on 24 March 2019 proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2018. This proposal is subject to the approval of the shareholders at the AGM of the Parent Company.
- ▶ The shareholders of the Parent Company in the AGM held on 25 May 2018 resolved not to distribute cash dividends for the year ended 31 December 2017.