

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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 2019, 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 2019, 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (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 2019.

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) Impairment testing of right-of-use asset

Right-of-use asset held by the Group as at 31 December 2019 is operated as a Hotel that generates revenue from hotel operations. Right-of-use asset is measured at cost less impairment and accumulated amortisation and the recognition and measurement of right-of-use asset is presented in the accounting policies in Note 2 to the consolidated financial statements. The value-in-use of the right-of-use asset was determined by accredited independent evaluators with recognised professional qualification and with relevant experience in the locations and category of the right-of-use asset being valued. The value-in-use 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 evaluators in estimating the value-in-use of right-of-use asset is set out in Note 8 to the consolidated financial statements. Given the significance of right-of-use asset and the complexity of impairment testing and the importance of disclosures relating to assumptions used in the estimating value-in-use, we considered impairment testing of right-of-use asset as a key audit matter.

As part of our audit procedures, we assessed the objectivity of the impairment testing process and the competence, independence and integrity of the external evaluators. We also evaluated the accuracy of the property data provided by the Group to the independent evaluators which are used as input for the purpose of impairment testing. 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 specialists were part of our audit team and assisted with the audit of the impairment testing of the right-of-use asset 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, completed property and completed shopping mall 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 and shopping mall located in the Kingdom of Saudi Arabia are 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) Impairment testing of 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 right-of-use asset. The valuation of these underlying right-of-use asset was performed by an accredited independent evaluator with recognised professional qualification and with relevant experience in the locations and category of the right-of-use asset being evaluated 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 right-of-use asset, audit procedures were performed at the Group level which included, assessing the objectivity of the impairment testing process and the competence, independence and integrity of the external evaluator. 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 specialists were part of our audit team and assisted with the audit of the impairment testing of the right-of-use asset, 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 2019 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.

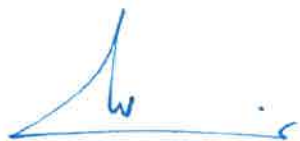
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 2019 that might have had a material effect on the business of the Parent Company or on its financial position.



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

7 May 2020
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
INCOME			
Operating revenue	4	11,087,841	10,617,787
Operating costs	4	(9,677,712)	(10,655,220)
Gross profit (loss)		1,410,129	(37,433)
Management fees	18	590,903	729,555
Net income from sukouk		1,475,266	1,298,879
Reversal of provisions no longer required		795,444	-
Impairment of right-of-use asset (2018: Impairment of leasehold property)	8(a)	(246,740)	(16,992,258)
Net loss from investment properties	8(b)	(499,731)	(305,558)
Fair value gain on financial assets at fair value through profit or loss		122,912	141,623
Finance income		26,886	47,373
Dividend income		-	165,619
Other income		491,669	430,853
Share of results of associates	10	1,658,906	820,764
		5,825,644	(13,700,583)
EXPENSES			
General and administrative expenses	5	(2,741,683)	(2,858,123)
Provision for expected credit losses	12	(492,176)	(1,846,031)
Depreciation expense		(86,535)	(29,362)
Write-down of inventories		(88,137)	(99,471)
Finance cost on Islamic finance payables		(3,011,727)	(2,308,631)
Finance cost on lease obligations	16	(942,574)	(966,988)
Net foreign exchange differences		9,335	(61,328)
		(7,353,497)	(8,169,934)
Loss before tax and board of directors' remuneration		(1,527,853)	(21,870,517)
Reversal of (charge for) tax expense	6	1,653,539	(10,077,505)
Board of directors' remuneration	18	(10,000)	-
PROFIT (LOSS) FOR THE YEAR		115,686	(31,948,022)
Attributable to			
Equity holders of the Parent Company		873,719	(28,231,521)
Non-controlling interests		(758,033)	(3,716,501)
		115,686	(31,948,022)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EPS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	7	2.71 fils	(88) fils

The attached notes 1 to 25 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 2019

	2019 KD	2018 KD
PROFIT (LOSS) FOR THE YEAR	115,686	(31,948,022)
Other comprehensive income (loss)		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Share of other comprehensive income of an associate	-	5,820
Exchange differences on translation of foreign operations	2,300	(272,810)
Net other comprehensive income (loss) for the year that may be reclassified to profit or loss in subsequent periods	2,300	(266,990)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Net loss on equity instruments designated at fair value through other comprehensive income	(19,118)	(276,729)
Revaluation of leasehold property	-	(6,112,532)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(19,118)	(6,389,261)
Other comprehensive loss for the year	(16,818)	(6,656,251)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	98,868	(38,604,273)
Attributable to:		
Equity holders of the Parent Company	851,641	(34,473,419)
Non-controlling interests	(752,773)	(4,130,854)
	98,868	(38,604,273)

The attached notes 1 to 25 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 2019

	Notes	2019 KD	2018 KD
ASSETS			
Non-current assets			
Furniture and equipment		338,361	102,268
Right-of-use asset (2018: Leasehold property)	8	53,849,054	66,375,239
Investment properties	8	22,588,450	15,621,744
Prepaid operating Lease	9	-	1,772,540
Investment in associates	10	30,182,157	32,798,051
Financial asset at fair value through profit or loss	11	4,749,684	4,953,030
Financial asset at fair value through other comprehensive income	11	833,964	853,082
		<u>112,541,670</u>	<u>122,475,954</u>
Current assets			
Accounts receivable and prepayments	12	9,451,262	8,313,657
Trading properties		530,370	530,370
Inventories		1,096,172	935,413
Wakala receivable		273,591	198,019
Bank balances and cash		5,880,812	5,575,413
		<u>17,232,207</u>	<u>15,552,872</u>
TOTAL ASSETS		<u>129,773,877</u>	<u>138,028,826</u>
EQUITY AND LIABILITIES			
Equity			
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
Other reserve	20	(309,291)	-
Fair value reserve		(1,612,099)	(1,592,981)
Asset revaluation surplus		-	658,251
Foreign currency translation reserve		(338,860)	(335,900)
Accumulated losses		(6,927,923)	(15,972,049)
Equity attributable to equity holders of the Parent Company		<u>47,350,989</u>	<u>46,808,639</u>
Non-controlling interests	14	(3,003,223)	(1,591,218)
Total equity		<u>44,347,766</u>	<u>45,217,421</u>
Liabilities			
Non-current liabilities			
Employees' end of service benefits		984,411	1,180,887
Islamic finance payables	15	40,644,066	43,054,000
Obligations under finance lease	16	13,806,626	14,886,519
Accounts payable and accruals	17	4,993,000	4,580,418
		<u>60,428,103</u>	<u>63,701,824</u>
Current liabilities			
Islamic finance payables	15	7,817,608	7,585,407
Obligations under finance lease	16	1,007,040	1,295,840
Accounts payable and accruals	17	16,173,360	20,228,334
		<u>24,998,008</u>	<u>29,109,581</u>
Total liabilities		<u>85,426,111</u>	<u>92,811,405</u>
TOTAL EQUITY AND LIABILITIES		<u>129,773,877</u>	<u>138,028,826</u>

Abdullah Fuad Abdullah Al-Thaqeb
Chairman

Abdulaziz Ahmad Yousef Al-Saqer
Chief Executive Officer

The attached notes 1 to 25 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 2019

	Equity attributable to shareholders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserve KD	Fair value reserve KD	Asset revaluation surplus KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2019 as previously reported (audited)	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
Impact of adopting IFRS 16 (Note 9)	-	-	-	-	-	-	(658,251)	-	658,251	-	-	-
Restated opening balance under IFRS 16	32,200,000	12,400,000	11,939,162	7,512,156	-	(1,592,981)	-	(335,900)	(15,313,798)	46,808,639	(1,591,218)	45,217,421
Profit (loss) for the year	-	-	-	-	-	-	-	-	873,719	873,719	(758,033)	115,686
Other comprehensive (loss) income for the year	-	-	-	-	-	(19,118)	-	(2,960)	-	(22,078)	5,260	(16,818)
Total comprehensive (loss) income for the year	-	-	-	-	-	(19,118)	-	(2,960)	873,719	851,641	(752,773)	98,868
Partial extinguishment of accumulated losses (Note 13)	-	-	-	(7,512,156)	-	-	-	-	7,512,156	-	-	-
Capital redemptions in a subsidiary	-	-	-	-	-	-	-	-	-	-	(665,473)	(665,473)
Other reserve (Note 20)	-	-	-	-	(309,291)	-	-	-	-	(309,291)	6,241	(303,050)
At 31 December 2019	32,200,000	12,400,000	11,939,162	-	(309,291)	(1,612,099)	-	(338,860)	(6,927,923)	47,350,989	(3,003,223)	44,347,766
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
Impact of adopting IFRS 9	-	-	-	-	-	(2,660,515)	-	-	2,660,515	-	-	-
Restated opening balance under IFRS 9	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)
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

The attached notes 1 to 25 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 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
Loss before tax and board of directors' remuneration		(1,527,853)	(21,870,517)
<i>Adjustments to reconcile loss before tax to net cash flows:</i>			
Depreciation of right-of-use asset (2018: Amortisation of leasehold property)	8(a)	3,309,184	3,835,345
Net loss from fair value remeasurement of investment properties	8(b)	2,403,468	2,292,859
Impairment of right-of-use assets (2018: Impairment of leasehold property)	8(a)	246,740	16,992,258
Net gain on financial assets at fair value through profit or loss		(122,912)	(141,623)
Finance income		(26,886)	(47,373)
Dividend income		-	(165,619)
Share of results of associates	10	(1,658,906)	(820,764)
Depreciation		86,535	29,362
Finance cost on Islamic finance payable		3,011,727	2,308,631
Finance cost on lease obligations	16	942,574	966,988
Reversal of provisions no longer required		(795,444)	-
Write-down of inventories		88,137	99,471
Net foreign exchange differences		(9,335)	61,328
Provision for expected credit losses	12	492,176	1,846,031
Provision for employees' end of service benefits		(63,425)	275,468
		6,375,779	5,661,845
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		(1,629,781)	6,697,097
Inventories		(248,896)	(112,200)
Accounts payable and accruals		1,401,744	(3,130,349)
		5,898,846	9,116,393
Cash flows from operations		(133,051)	(166,365)
Employees' end of service benefits paid		(1,874,200)	(33,653,110)
Taxes paid			
Net cash flows from (used in) operating activities		3,891,596	(24,703,082)
INVESTING ACTIVITIES			
Purchase of furniture and equipment		(159,785)	(83,158)
Additions to right-of-use asset (2018: Leasehold property)		(124,188)	(234,701)
Proceeds from capital redemption of financial assets at fair value through profit or loss		326,257	241,600
(Investment in) proceeds from wakala receivables		(54,713)	343,650
Proceeds from capital redemption of an associate	10	3,769,349	4,192,019
Dividend income received from an associate	10	479,571	399,651
Finance income received		26,886	47,373
		4,263,377	4,906,434
Net cash flows from investing activities			
FINANCING ACTIVITIES			
Net (repayment of) proceeds from Islamic finance payables		(2,180,000)	23,872,801
Payment of obligations under finance lease		(1,007,400)	(1,294,880)
Finance costs paid		(3,979,717)	(1,845,804)
Dividends paid to non-controlling interests		(665,473)	-
Dividends paid to equity holders of the Parent Company		(15,213)	(6,386)
		(7,847,803)	20,725,731
Net cash flows (used in) from financing activities			
INCREASE IN BANK BALANCES AND CASH		307,170	929,083
Bank balances and cash at 1 January		5,575,413	4,637,943
Net foreign exchange differences		(1,771)	8,387
		5,880,812	5,575,413
BANK BALANCES AND CASH AT 31 DECEMBER			

The attached notes 1 to 25 form part of these consolidated financial statements.

I 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 2019 were authorised for issue in accordance with a resolution of board of directors on 7 May 2020, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The shareholders of the Parent Company at the AGM held on 16 May 2019 approved the consolidated financial statements for the year ended 31 December 2018. No dividends were declared by the shareholders at the 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 Ultimate 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 Shari’a as approved by the Fatwa and Shari’a board appointed by the Parent Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

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
		2019	2018	
Directly held				
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) – under liquidation	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 (Note 20)	Kuwait	62.81%	62.11%	Real estate
Held by MAS International				
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 Group’s consolidated financial statements. See Note 14 for more details.

b) Associates

Name	Country of incorporation	% equity interest		Principal activities
		2019	2018	
The Zamzam 2013 JV (“Zamzam”)	Kuwait	36.69%	36.69%	Real estate
Athman Al Khalijya Company W.L.L. (“Athman”)	Kuwait	32.60%	32.60%	Real estate

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**2.1 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 investment properties 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. 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 2019, 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.

Adoption of IFRS 16 ‘Leases’

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is, however, substantially unchanged from present accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating leases and finance leases. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

a) Nature of the effect of adoption of IFRS 16

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities previously classified as finance leases (i.e the right-of-use asset and lease liabilities equal to the leasehold property and liabilities recognised under IAS 17).

The requirements of IFRS 16 were applied to these leases applying the cost model from 1 January 2019. The accounting policy and related disclosures are presented in the consolidated financial statements.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 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.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Other new or amended standards which are issued but not yet effective, are not relevant to the Group and have no impact on the accounting policies, financials position or performance of the Group.

2.4 SIGNIFICANT ACCOUNTING POLICIES

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

2.4.1 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

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.1 Basis of consolidation (continued)

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.

2.4.2 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 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.3 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 it is acting as a principal in most of the revenue arrangements.

The Group's key sources of income include:

- ▶ Hotel revenue
- ▶ Rental income
- ▶ Revenue from contracts with customers:
 - Services to tenants including management charges and other expenses recoverable from tenants
 - Other revenue arrangements

The accounting for each of these elements is discussed below.

Hotel revenue

Revenue represents the revenue from hotel rooms, food and beverage revenue from rooms and restaurants, and other facilities provided by the Group as part of the hospitality services. Revenue in respect of rooms is recognised when the rooms are occupied and revenue from food and beverages when they are sold.

Rental income

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. In addition, the Group subleases investment property acquired under head leases with lease terms exceeding 12 months at commencement. Subleases are classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying investment property. All the Group's subleases are classified as operating leases.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in "Net income from investment properties" in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Other revenue arrangements

These are recognised over time and at a point in time when the control of goods or services are transferred to the customers and performance obligations are satisfied.

2.4.4 Capitalisation of borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of qualifying asset are capitalised, while the asset is being constructed, as part of the cost of that asset. Capitalisation of borrowing costs commences when:

- ▶ Expenditures for the asset and borrowing costs are being incurred; and
- ▶ Activities necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended.

When construction occurs piecemeal and use of each part is possible as construction continues, capitalisation for each part ceases on substantial completion of the part. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.5 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.

2.4.6 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).

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 average exchange rates. 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.

2.4.7 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 and Zakat

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. The Group is subject to Zakat on its overseas operation in accordance with the zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the KSA, which is also subject to interpretations. Zakat is levied at a rate of 2.5% on the higher of adjusted Zakatable profit or based on net equity using the basis defined in the zakat regulation (the Zakat base).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Taxation on overseas operations (continued)

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.

2.4.8 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.

2.4.9 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Leases

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

Policy applicable from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets. The Group recognises right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentive received and impairment. Unless the Group is certain to obtain the ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

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.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term less any payments made on the date of entering the lease.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Leases (continued)

Policy applicable up to 31 December 2018

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 and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as 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 statement of profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Increase in fair valuation is recorded to a revaluation surplus within the statement of comprehensive income. If a revaluation increase reverses a revaluation decrease that was previously recognised as an expense, it may be 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.

2.4.11 Investment properties

Investment property comprises completed property and shopping mall that are held to earn rental income. Property and shopping mall held under lease are classified as investment property when it is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property comprises principally commercial building and shopping mall that are not occupied substantially for use by, or in the operations of, the Group, not for sale in the ordinary course of business, but is held primarily to earn rental income. This building and shopping mall is substantially rented to tenants and not intended to be sold in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit and loss in the period in which they arise, including the corresponding tax effect. For the purpose of these financial statements in order to avoid double counting the fair value calculated is reduced by the accrued income resulting from straight line method accounting of rental income. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model consistent with the nature and usage of the investment property.

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 IAS 16 up to the date of change in use.

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 profit or loss in the period of derecognition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.12 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.

2.4.13 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.

2.4.14 Inventories

Inventories represent time share rights (sokouk) and are valued at the lower of cost and net realisable value.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.15 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and initial measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of other assets that do not contain a significant financing component or for which the Group has applied the practical expedient, 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. Other assets that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

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 with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date, i.e., the date that the Group receives or delivers the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

a) Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include bank balances and cash, wakala receivable and accounts receivable.

b) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably certain equity investments under this category.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.15 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI and investment in funds. Net gains and losses, including any dividend income, are recognised in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Accounts receivable including contract assets
- ▶ Other financial assets measured at amortised cost

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

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 accounts 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. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.15 Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities

Initial recognition and measurement

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.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost (including Islamic finance payable)

The Group has not designated any financial liability as at fair value through profit or loss and financial liabilities at amortised cost is more relevant to the Group.

Financial liabilities at amortised cost

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.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

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

2.4.16 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.16 Impairment of non-financial assets (continued)

iii) Offsetting of financial instruments (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.4.17 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.

2.4.18 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.18 Fair value measurement (continued)

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 (b)).

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.

2.4.19 Employees' end of service benefits

The Group provides end of service benefits to 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

2.4.20 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 benefit 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.

2.4.21 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.4.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.23 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Significant judgments

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

Classification of financial assets

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.

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Classification of real estate

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

Legal cases

In accordance with IFRSs, outcome of legal cases may result in disclosure of contingent assets, contingent liabilities or recognition of a provision. Contingent asset are possible assets that arise from past events and whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control and are disclosed if the inflow of economic benefits is probable.

The Group may also recognise a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
(continued)

3.1 Significant judgments (continued)

Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for disclosures and provision in its consolidated financial statements. Among the factors considered in making decisions on disclosure or provisions are the nature of litigation, claim or assessment, the legal process and potential outcome in the jurisdiction in which the litigation has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Zakat

The Group's operations and subsidiaries in KSA are subject to zakat in accordance with the regulations of General Authority for Zakat and Tax ("GAZT"). Provision for zakat for the Group's operations and subsidiaries in KSA is charged to the consolidated statement of profit or loss. Additional amounts payable, if any, at the time of finalisation of final assessments are accounted for when such amounts are determined.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

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.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**3.2 Estimates and assumptions (continued)*****Impairment of right-of-use asset***

Impairment exists when the carrying value of right-of-use asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for right-of-use asset, including a sensitivity analysis, are disclosed and further explained in Note 8(a).

Provision for expected credit loss (ECL) on financial assets at amortised cost

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.

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

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 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.

Taxes

The Group is subject to zakat in KSA. Significant judgement is required in determining the provision for zakat. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate zakat determination is uncertain. The Group recognises liabilities for anticipated zakat issues based on management's understanding of the respective zakat law and advice from the tax consultant.

Where the final outcome of these matters is different from the carrying amounts, such differences will impact the zakat and tax provisions in the period in which such determination is made.

4 OPERATING REVENUE AND COST

	2019 KD	2018 KD
Operating revenue		
Hotel revenue	11,087,841	10,617,787
Type of goods or service		
Room revenue	7,454,976	7,584,751
Food and beverage	3,364,703	2,808,049
Other hotel revenues	268,162	224,987
Total revenue from contracts with customers	11,087,841	10,617,787
Geographical markets		
Kingdom of Saudi Arabia	11,087,841	10,617,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4 OPERATING REVENUE AND COST (continued)

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
Operating costs		
Hotel operating costs	(6,368,528)	(6,819,875)
Depreciation of right-of-use asset (2018: Amortisation of leasehold property) (Note 8)	(3,309,184)	(3,835,345)
	<u>(9,677,712)</u>	<u>(10,655,220)</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff costs of KD 1,641,637 (2018: KD 1,964,779).

6 REVERSAL OF (CHARGE FOR) TAX EXPENSE

The Group based on advice by the tax consultant has recorded only withholding tax and zakat which is payable to General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia ("KSA") for the year ended 31 December 2019 (2018: income taxes, withholding tax and zakat) which resulted in reversal of tax provisions amounting KD 1,653,539 (2018: charge of KD 10,077,505) recognised in the statement of profit or loss for the year then ended.

Provision for zakat is recorded based on the higher of adjusted taxable profit or net equity using the basis defined in the zakat regulations (the "Zakat base") at the rate of 2.5% (2018: income base: 20%). The above provision also includes withholding tax payable on repatriation of income outside KSA at 5% (2018: 5%).

7 EARNINGS (LOSS) PER SHARE ("EPS")

Basic EPS amounts are calculated by dividing the profit (loss) for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	<i>2019</i>	<i>2018</i>
Profit (loss) for the year attributable to the equity holders of the Parent Company (KD)	<u>873,719</u>	<u>(28,231,521)</u>
Weighted average number of ordinary shares outstanding during the year (shares)	<u>322,000,000</u>	<u>322,000,000</u>
Basic and diluted EPS attributable to the equity holders of the Parent Company	<u>2.71 fils</u>	<u>(88) fils</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

8 RIGHT-OF-USE ASSET (LEASEHOLD PROPERTY) AND INVESTMENT PROPERTIES**a. Right-of-use asset (Leasehold property)**

Right-of-use assets (leasehold property) represents “Qeblah Tower”, a property located in KSA and is operating as hotel through an agreement with an internationally reputed hotel operator.

Set out below are the carrying amounts of right-of-use assets (leasehold property) recognised and the movements during the year:

	2019 KD	2018 KD
At 1 January	66,375,239	92,348,445
Transfer to investment properties	(9,371,749)	-
Transfer from prepaid operating lease (Note 9)	1,772,540	-
Impairment of right-of-use asset (2018: Leasehold property)	(246,740)	(16,992,258)
Discount received on future lease payments	(1,449,542)	-
Revaluation adjustment	-	(6,112,532)
Depreciation on right-of-use asset (2018: Leasehold property) (Note 4)	(3,309,184)	(3,835,345)
Additions	124,188	575,913
Exchange differences	(45,698)	391,016
At 31 December	<u>53,849,054</u>	<u>66,375,239</u>

Right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses. The right-of-use asset is depreciated over the remaining period of the lease from the date when the asset is available for intended use. As at the reporting date, the remaining period of the lease was 21.92 years (2018: 22.92 years).

The right-of-use asset is subject to impairment for which the Group has carried out an annual assessment. The assessment is conducted by determining the value in use (VIU) of properties located in Kingdom of Saudi Arabia (“KSA”) using a discounted cash flow method (“DCF”), as described below. These VIU estimates were performed by accredited independent valuers with recognised and relevant professional qualifications and recent experience in the location and category of the properties being valued. The VIU models applied are consistent with the principles in IAS 36 ‘*Impairment of Assets*’.

b. Investment properties

The movement in investment properties is as follows:

	2019 KD	2018 KD
At 1 January	15,621,744	17,880,374
Transfer from right-of-use assets	9,371,749	-
Net loss from fair value remeasurement	(2,403,468)	(2,292,859)
Exchange differences	(1,575)	34,229
At 31 December	<u>22,588,450</u>	<u>15,621,744</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 ‘*Fair Value Measurement*’.

Investment properties with a carrying value of KD 8,967,670 (2018: KD 9,231,425) are pledged against Islamic finance payables (Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

8 RIGHT-OF-USE ASSET (LEASEHOLD PROPERTY) AND INVESTMENT PROPERTIES (continued)

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

	2019 KD	2018 KD
Net loss from fair value remeasurement	(2,403,468)	(2,292,859)
Net rental income	1,903,737	1,987,301
	<u>(499,731)</u>	<u>(305,558)</u>

Description of valuation techniques used and key unobservable made in determining the VIU of the right-of-use asset (leasehold property) and valuation of the investment properties:

Type of property	Valuation technique	Significant unobservable inputs	Range	
			2019	2018
a. Right-of-use asset				
Qebalah Tower – KSA				
• Hotel	DCF	<ul style="list-style-type: none"> ▶ Estimated Average room rate in Saudi Riyals (SAR) ▶ Long term RevPAR growth* ▶ Occupancy rate ▶ Discount rate ▶ Inflation rate ▶ Gross operating profit 	450 - 562 2.00% - 4.90% 74% - 76 % 9.50% 2.00% 57% - 59%	475 - 610 1.50% - 12.00% 72% - 76 % 11.50% 3.00% 52% - 60%
b. Investment properties				
• Land in the State of Kuwait	Market comparison approach	▶ Price per square meter	KD 3,400 KD 3,600	KD 3,500 KD 3,750
• 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 15% (2018: 11.50%).		
• Shopping mall, KSA	DCF	<ul style="list-style-type: none"> ▶ Estimated yearly rent in SAR per square metre ▶ Occupancy rate ▶ Discount rate 	5,278 95% 9.50%	6,577 65% 10.50%

*RevPAR = Revenue Per Available Room.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

8 RIGHT-OF-USE ASSET (LEASEHOLD PROPERTY) AND INVESTMENT PROPERTIES (continued)**b. Right-of-use asset (Leasehold property) (continued)**

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 amount 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.

A reasonable possible decline in the estimated average room rates, long term Rev PAR growth, occupancy, gross operating profit and increase in profit and increase in inflation rate would result in the impairment of right-of-use asset.

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 2019 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>
2019		
Investment properties		
State of Kuwait	8,967,670	8,967,670
KSA	13,620,780	13,620,780
2018		
Investment properties		
State of Kuwait	9,231,425	9,231,425
KSA	6,390,319	6,390,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

9 PREPAID OPERATING LEASE

Prepaid operating lease represents additional operating cash flows from a right-of-use asset “Zamzam Tower” for a period of 5 months starting on 1 October 2029 to 28 February 2030.

During the current year, upon adoption of IFRS 16 *Leases* the prepaid operating lease has been transferred to right-of-use asset (Note 8) and the related asset revaluation surplus has been transferred to accumulated losses in consolidated statement of changes in equity.

10 INVESTMENT IN ASSOCIATES

	<i>Country of domicile</i>	<i>Percentage of Ownership interest</i>		<i>Carrying amount</i>	
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
				<i>KD</i>	<i>KD</i>
The Zamzam 2013 JV (“Zamzam”)	Kuwait	36.69%	36.69%	25,369,451	28,283,208
Athman Al Khalijya Company W.L.L. (“Athman”)	Kuwait	32.60%	32.60%	4,812,706	4,514,843
				30,182,157	32,798,051

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

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	32,798,051	34,185,681
Capital redemption	(3,769,349)	(4,192,019)
Dividends received	(479,571)	(399,651)
Share of results*	1,658,906	3,028,390
Share of other comprehensive income	-	5,820
Exchange difference on translation of foreign operations	(25,880)	169,830
As at 31 December	30,182,157	32,798,051

* During the previous 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 resulted in additional tax liability of KD 2,207,626 to the Parent Company which was included the share of results of associates in the consolidated statement of profit or loss for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

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	
	2019	2018	2019	2018	2019	2018
	KD	KD	KD	KD	KD	KD
Non-current assets	74,996,105	82,528,810	14,672,610	12,269,759	89,668,715	94,798,569
Current assets	10,704,872	10,375,231	92,871	1,583,179	10,797,743	11,958,410
Current liabilities	(12,943,434)	(11,032,465)	(1,000)	(3,726)	(12,944,434)	(11,036,191)
Equity	72,757,543	81,871,576	14,764,481	13,849,212	87,522,024	95,720,788
Group's equity interest	36.69%	36.69%	32.60%	32.60%		
Group's share in equity	26,696,201	30,040,321	4,812,706	4,514,843	31,508,907	34,555,164
Revenues	20,477,880	19,537,113	2,402,887	741,302	22,880,767	20,278,415
Cost of revenue	(10,305,064)	(10,411,547)	-	-	(10,305,064)	(10,411,547)
Amortisation and impairment	(7,679,231)	(15,081,106)	-	-	(7,679,231)	(15,081,106)
General and administrative expenses, management fee and (charge) / reversal of taxes	(1,264,141)	940,932	(1,914)	-	(1,266,055)	940,932
Profit (loss) for the year	1,229,444	(5,014,608)	2,400,973	741,302	3,630,417	(4,273,306)

The carrying amount of Zamzam is adjusted to eliminate a downstream transaction of KD 1,326,750 (2018: KD 1,757,113).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

11 INVESTMENT SECURITIES

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Financial assets designated at fair value through profit or loss	4,749,684	4,953,030
Financial assets designated at fair value through other comprehensive income	833,964	853,082

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 22.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Account receivables	9,464,648	8,098,768
Less: Allowance for expected credit losses	(5,188,389)	(4,696,213)
	4,276,259	3,402,555
Amounts due from related parties (Note 18)	2,830,721	2,920,245
Advances to contractors	1,657,451	1,669,458
Prepaid expenses	11,147	25,435
Other receivables	675,684	295,964
	9,451,262	8,313,657

As at 31 December 2019, account receivables of KD 5,188,389 (2018: KD 4,696,213) 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. Accounts receivables are non-interest bearing and are generally on terms of 30 to 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.

Set out below is the movement in the allowance for expected credit losses of accounts receivable:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Opening loss allowance at 1 January	4,696,213	2,850,182
Allowance recognised in profit or loss during the year	496,472	1,850,053
Unused amount reversed	(4,296)	(4,022)
Closing loss allowance at 31 December	5,188,389	4,696,213

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

13 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES**(i) Share capital**

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Shares of 100 fils each (paid in cash)	322,000,000	322,000,000	32,200,000	32,200,000

(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.

At the AGM held on 16 May 2019, the shareholders approved the partial extinguishment of accumulated losses as at 31 December 2018 amounted to KD 7,512,156 through utilising the full balance of voluntary reserve as of that date.

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	
		<i>2019</i>	<i>2018</i>
Al Safwa Joint Venture ("Safwa JV")	Kuwait	60%	60%
Al Qebalah JV ("Qebalah JV")	Kuwait	37.19%	37.89%
		<i>2019</i>	<i>2018</i>
		<i>KD</i>	<i>KD</i>
Accumulated balance of material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		4,295,956	4,854,031
Al Qebalah JV ("Qebalah JV")		(7,299,179)	(6,445,249)
		(3,003,223)	(1,591,218)
Profit (loss) allocated to material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		109,085	234,889
Al Qebalah JV ("Qebalah JV")		(867,119)	(3,951,390)

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 2019

14 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

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

Summarised statement of profit or loss:

	Qebalah JV		Safwa JV	
	2019	2018	2019	2018
	KD	KD	KD	KD
Revenue	5,394,958	5,545,212	1,862,673	1,987,301
Cost of revenue	(4,318,711)	(4,493,071)	(93,134)	(99,365)
Other (expense) income	(25,531)	119,257	1,583	9,410
Impairment loss	(246,740)	(10,215,774)	(1,992,844)	(974,284)
Provision for expected credit loss	(5,545)	-	(10,179)	-
Tax expense reversal	-	-	429,751	-
Finance costs	(3,086,890)	(1,369,587)	-	-
Administrative expenses	(43,132)	(14,621)	(16,342)	(532,228)
(Loss) profit for the year	(2,331,591)	(10,428,584)	181,508	390,834
Total comprehensive (loss) income	(2,331,591)	(10,428,584)	181,508	390,834
Attributable to non-controlling interests	(867,119)	(3,951,390)	109,085	234,889

Summarised statement of financial position:

	Qebalah JV		Safwa JV	
	2019	2018	2019	2018
	KD	KD	KD	KD
Investment properties	-	-	4,395,900	6,390,319
Right-of-use asset	30,413,859	-	-	-
Leasehold property	-	32,837,280	-	-
Accounts receivables	1,786,655	1,517,094	2,090,043	1,639,528
Other current assets	788,954	146,700	922,947	954,826
Total assets	32,989,468	34,501,074	7,408,890	8,984,673
Accounts payable	52,616,191	51,511,497	260,807	908,001
Total liabilities	52,616,191	51,511,497	260,807	908,001
(Deficit of funds) total equity	(19,626,723)	(17,010,423)	7,148,083	8,076,672
Attributable to:				
Equity holders of Parent Company	(12,327,545)	(10,565,174)	2,852,127	3,222,641
Non-controlling interests	(7,299,178)	(6,445,249)	4,295,956	4,854,031
	(19,626,723)	(17,010,423)	7,148,083	8,076,672

Summarised cash flow information for the year ended 31 December:

	Qebalah JV		Safwa JV	
	2019	2018	2019	2018
	KD	KD	KD	KD
Operating activities	1,809,964	1,596,253	1,070,604	287,085
Investing activities	(76,060)	(96,131)	1,407	368,941
Financing activities	(1,091,528)	(1,499,943)	(1,103,102)	(849,240)
Net increase (decrease) in cash and cash equivalents	642,376	179	(31,091)	(193,214)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

15 ISLAMIC FINANCE PAYABLES

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Current		
Murabaha payable	5,433,508	5,405,407
Tawarruq payable*	2,409,934	2,180,000
Less: deferred finance costs	(25,834)	-
	<u>7,817,608</u>	<u>7,585,407</u>
Non-current		
Tawarruq payable*	40,644,066	43,054,000
	<u>48,461,674</u>	<u>50,639,407</u>

* During the previous 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 5.75% (2018: 6%) 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>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
As at 1 January	50,639,407	27,125,878
<i>Cash flows:</i>		
Repayments of borrowings	(2,180,000)	(23,361,199)
Proceeds from borrowings	-	45,234,000
Payment of finance cost	(3,037,143)	(1,845,804)
<i>Non-cash movements:</i>		
Foreign exchange movement	2,267	110,032
Finance costs	3,037,143	1,376,500
As at 31 December	<u>48,461,674</u>	<u>50,639,407</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

16 OBLIGATIONS UNDER FINANCE LEASE

	2019 KD	2018 KD
Lease obligations	14,813,666	16,182,359
Less: current portion	(1,007,040)	(1,295,840)
Long-term obligations under finance lease	13,806,626	14,886,519

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

	2019 KD	2018 KD
2019	-	1,295,840
2020	1,007,040	1,295,840
2021	1,007,040	1,295,840
2022	1,007,040	1,295,840
Thereafter	24,312,000	24,620,960
Total minimum lease payments	27,333,120	29,804,320
Less: future finance charges	(12,519,454)	(13,621,961)
Present value of minimum finance lease rental payments	14,813,666	16,182,359
Current portion of lease obligations	(1,007,040)	(1,295,840)
Non-current obligations under finance lease	13,806,626	14,886,519

Changes in obligations under finance lease is as follows:

	2019 KD	2018 KD
As at 1 January	16,182,359	16,421,602
Additions	155,953	-
Discount on lease payments	(1,445,265)	-
Finance cost	942,574	966,988
Repayments	(1,007,400)	(1,294,880)
Net foreign exchange difference	(14,555)	88,649
As at 31 December	14,813,666	16,182,359

17 ACCOUNTS PAYABLE AND ACCRUALS

	2019 KD	2018 KD
Payables to contractors for investment properties and right-of-use asset	1,740,603	1,742,025
Amounts due to related parties (Note 18)	1,402,477	480,898
Accrued expenses	535,519	727,712
Advances from customers	1,552,242	1,266,193
Payable to right-of-use asset manager and maintenance contractor	4,929,834	4,934,099
Zakat and taxation provision (Note 6)	5,693,403	8,771,311
Other payables	5,312,282	6,886,514
	21,166,360	24,808,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2019

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:

	<i>Major shareholder of the Ultimate Parent Company</i>	<i>Associates</i>	<i>Others</i>	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Statement of profit or loss</i>					
Management fees	-	228,428	362,475	590,903	729,555
Finance income	6,484	-	-	6,484	10,921
Finance costs	(2,688,624)	-	-	(2,688,624)	(1,253,199)
Management fees	-	-	(438,255)	(438,255)	(338,568)
<i>Statement of financial position</i>					
Financial asset at fair value through profit or loss	-	-	3,647,906	3,647,906	3,589,713
Financial asset at fair value through other comprehensive income	-	-	648,100	833,964	853,082
Bank balances and cash	4,036,327	-	-	4,036,327	3,764,362
Accounts receivable and prepayments (Note 12)	-	-	2,828,653	2,830,721	2,920,245
Accounts payable and accruals	-	964,608	388,039	1,402,476	480,898
Islamic finance payables (Note 15)	43,056,267	-	-	43,056,267	45,234,000

Included within related party receivables and payables are KD 470,648 (2018: KD 1,796,160) 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 2019

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 2019, the Group has recognised provision for expected credit losses KD 15,724 (2018: 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>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Compensation of key management personnel of the Group</i>				
Salaries and short-term benefits	122,680	193,854	505,100	558,272
Post-employment benefits	367,739	342,422	29,719	89,054
	<u>490,419</u>	<u>536,276</u>	<u>534,819</u>	<u>647,326</u>

The Board of Directors at the meeting held on 11 April 2019 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2018. The remuneration was approved by the shareholders at the AGM held on 16 May 2019.

19 SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Kuwait and KSA.

The table below presents revenue and results and assets and liabilities information regarding the Group's geographic segments. The Group, including associate entities as disclosed in Note 10, are primarily engaged in real estate activities and accordingly no business segment is presented.

	<i>Kuwait</i>	<i>KSA</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>2019</i>
			<i>KD</i>
<i>31 December 2019</i>			
<i>Statement of profit or loss</i>			
Revenue from contracts with customers	621,182	14,955,120	15,576,302
Segment results	(1,474,532)	(53,321)	(1,527,853)
<i>Other information</i>			
Depreciation and amortisation of right-of-use asset	(86,535)	(3,309,184)	(3,395,719)
Allowance for expected credit losses	(131,368)	(360,808)	(492,176)
Impairment	-	(246,740)	(246,740)
<i>Statement of financial position</i>			
Total assets	17,750,799	112,023,078	129,773,877
Total liabilities	21,621,713	63,804,398	85,426,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

19 SEGMENT INFORMATION (continued)

	Kuwait KD	KSA KD	Total 2018 KD
<i>31 December 2018</i>			
<i>Statement of profit or loss</i>			
Revenue from customer	780,639	14,334,820	15,115,459
Segment results	(2,998,661)	(18,871,856)	(21,870,517)
<i>Other information</i>			
Depreciation of leasehold property	(29,362)	(3,835,345)	(3,864,707)
Allowance for expected credit losses	(19,025)	(1,827,006)	(1,846,031)
Impairment	-	(16,992,258)	(16,992,258)
<i>Statement of financial position</i>			
Total assets	17,598,925	120,429,901	138,028,826
Total liabilities	25,629,344	67,182,061	92,811,405

20 COMMITMENTS AND CONTINGENCIES

Legal claim contingency

- i) 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 2019 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.

- ii) One of the Joint Venturer of a subsidiary "Al Qebalah JV" filed a case against the Parent Company in its capacity as Joint Venture Manager for Al Qebalah JV for recovery of the initial investment in the Joint Venture and compensation. During the year, the court ruled in favour of that Venturer and ordered the Parent Company to pay the initial investment of USD 1,000,000 and 15% compensation. The Parent Company made the payment on behalf of Al Qebalah JV. The acquisition of the investment of the Venturer by Al Qebalah JV was accounted by the Parent Company as change in ownership of subsidiary without loss of control and loss of KD 309,291 was recorded in other reserves within equity and resulting change in the non-controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, comprise bank borrowings, obligation under finance lease and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, wakala receivable and bank balances and cash 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>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Accounts receivable*	7,782,664	6,618,764
Wakala receivable	273,591	198,019
Bank balances	5,880,812	5,575,413
	<u>13,937,067</u>	<u>12,392,196</u>

* excluding advances to contractor and prepaid expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)**21.1 Credit risk (continued)***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.

Concentration of financial assets

The distribution of financial assets by geographic region for 2019 and 2018 is as follows:

	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Other KD</i>	<i>Total KD</i>
<i>At 31 December 2019</i>				
Accounts receivable*	1,190,344	5,925,427	666,893	7,782,664
Wakala receivable	-	-	273,591	273,591
Bank balances	5,307,092	414,400	159,320	5,880,812
	<u>6,497,436</u>	<u>6,339,827</u>	<u>1,099,804</u>	<u>13,937,067</u>
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Other KD</i>	<i>Total KD</i>
<i>At 31 December 2018</i>				
Accounts receivable*	1,218,437	4,498,257	902,070	6,618,764
Wakala receivable	-	-	198,019	198,019
Bank balances	4,571,999	531,649	471,765	5,575,413
	<u>5,790,436</u>	<u>5,029,906</u>	<u>1,571,854</u>	<u>12,392,196</u>

* Excluding advances to contractor and prepaid expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)**21.1 Credit risk (continued)***Concentration of financial assets (continued)*

Set out below is the information about the credit risk exposure on the Group's accounts receivables using a provision matrix:

2019	<i>Neither past due nor impaired KD</i>	<i>Past due and impaired KD</i>	<i>Total KD</i>
Gross carrying amount	1,116,690	8,347,958	9,464,648
Estimated credit loss	-	5,188,389	5,188,389
Expected credit loss rate	-	62%	55%
2018	<i>Neither past due nor impaired KD</i>	<i>Past due and impaired KD</i>	<i>Total KD</i>
Gross carrying amount	884,664	7,214,104	8,098,768
Estimated credit loss	-	4,696,213	4,696,213
Expected credit loss rate	-	65%	58%

Expected credit loss assessment for account receivables

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)**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 2019 (2018: 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.

2019	<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	-	-	1,007,040	26,326,080	27,333,120
Islamic finance payables	5,405,407	-	5,038,271	51,136,375	61,580,053
Accounts payable and accruals*	857,125	1,502,896	2,520,000	4,066,924	8,946,945
TOTAL UNDISCOUNTED LIABILITIES	6,262,532	1,502,896	8,565,311	81,529,379	97,860,118
2018	<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
TOTAL UNDISCOUNTED LIABILITIES	6,355,635	1,695,847	8,707,680	89,080,128	105,839,290

* excluding advances from customers, provisions and accrued expenses.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**21.3 Market risk (continued)****21.3.1 Profit rate risk (continued)***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.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Fixed-rate instruments		
Financial assets	273,591	198,019
Financial liabilities	14,813,666	16,182,359
	<u>15,087,257</u>	<u>16,380,378</u>
Variable-rate instruments		
Financial liabilities	48,461,674	50,639,407

Profit rate sensitivity

A reasonably possible change of 100 basis points in profit rates at the reporting date would have resulted in an increase in loss for the year by KD 484,617 (2018: KD 506,394). 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 foreign 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.

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

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
SAR	24,051,548	(7,567,166)
USD	16,854,583	7,081,488

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

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

Currency	Change in exchange rate	Monetary financial assets and liabilities			
		Effect on OCI		Effect on profit or loss	
		2019 KD	2018 KD	2019 KD	2018 KD
SAR	+5%	-	-	1,202,577	(378,358)
USD	+5%	49,082	61,058	842,729	293,016

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 5,397,784 (2018: KD 5,601,130). 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.

Market indices	Effect on profit or loss	
	2019 KD	2018 KD
Boursa Kuwait	9,293	15,476

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

22 FAIR VALUE MEASUREMENT (continued)

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:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<i>Financial instruments</i>		
Investment securities (at fair value)		
Quoted equity securities	185,864	204,982
Unquoted equity securities	4,416,153	4,379,967
Unquoted funds	981,631	1,221,163
	<u>5,583,648</u>	<u>5,806,112</u>
	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<i>Non-financial assets</i>		
Investment properties	<u>22,588,450</u>	<u>15,621,744</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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

22 FAIR VALUE MEASUREMENT (continued)**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 investment 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.

The fair value of investment 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. 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 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		
		Quoted prices in	Significant	Significant
		active markets	observable	unobservable
		(Level 1)	inputs	inputs
		(Level 1)	(Level 2)	(Level 3)
31 December 2019	Total	KD	KD	KD
Financial assets at fair value through profit or loss	4,749,684	-	-	4,749,684
Financial assets at fair value through other comprehensive income	833,964	185,864	-	648,100
	<u>5,583,648</u>	<u>185,864</u>	<u>-</u>	<u>5,397,784</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

22 FAIR VALUE MEASUREMENT (continued)**22.1 Financial instruments (continued)***Fair value hierarchy (continued)*

	Fair value measurement using			
	<i>Total</i>	<i>Quoted prices in</i>	<i>Significant</i>	<i>Significant</i>
	<i>KD</i>	<i>active markets</i>	<i>observable</i>	<i>unobservable</i>
<i>31 December 2018</i>		<i>(Level 1)</i>	<i>inputs</i>	<i>inputs</i>
		<i>KD</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
			<i>KD</i>	<i>KD</i>
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>

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

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:

	<i>Financial assets at FVOCI</i>	<i>Financial assets at FVTPL</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
2019			
As at 1 January 2019 (IFRS 9)	648,100	4,953,030	5,601,130
Remeasurement recognised in OCI	-	-	-
Remeasurement recognised in profit or loss	-	122,911	122,911
Purchases / sales (net)	-	(326,257)	(326,257)
As at 31 December 2019	<u>648,100</u>	<u>4,749,684</u>	<u>5,397,784</u>
2018			
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)
As at 31 December 2018	<u>648,100</u>	<u>4,953,030</u>	<u>5,601,130</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

22 FAIR VALUE MEASUREMENT (continued)**22.2 Non-financial assets**

Non-financial assets consists of investment properties. The fair value of 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 2019 and 2018 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.

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 2019 and 31 December 2018.

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>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Islamic finance payables	48,461,674	50,639,407
Obligations under finance leases	14,813,666	16,182,359
Accounts payable and accruals	21,166,360	24,808,752
Less: Bank balance and cash	(5,880,812)	(5,575,413)
Net debt	78,560,888	86,055,105
Equity attributable to equity holders of the Parent Company	47,350,989	46,808,639
Capital and debt	125,911,877	132,863,744
Gearing ratio	62%	65%

24 PROPOSED DIVIDENDS

The Board of Directors in their meeting held on 7 May 2020 proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2019. 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 16 May 2019 resolved not to distribute cash dividends for the year ended 31 December 2018.

25 SUBSEQUENT EVENT

Subsequent to the reporting date, the Government of KSA has implemented several precautionary measures to help control and prevent the spread of the coronavirus pandemic ("COVID-19"). These measures included, but are not limited to, the temporary suspension of entry for individuals wanting to perform the Umrah pilgrimage in the Great Mosque of Mecca or to visit the Prophet's Mosque in Medina. The existing and anticipated effects of the outbreak of COVID-19 on the global economy and financial markets is expected to continue to evolve. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Group's financial performance, cash flows and financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements.

Further, in light of the above measures the Parent Company on 1 April 2020 has decided to cease operations of its hotels in Mecca and Medina until further notice".