

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



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 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Material Uncertainty Related to Going Concern and Impact of Covid-19

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of KD 31,686,028 during the year ended 31 December 2020 and, as of that date, the Group has significant debt exposure and its current liabilities exceeded its current assets by KD 20,598,890. In addition to the above, the Group's accumulated losses at the reporting date amounted to KD 33,602,151 which is in excess of its paid-up share capital.

Further, the COVID-19 pandemic has had a severe impact on the global hospitality industry. The travel and border restrictions implemented by the countries in which the Group operates has led to a significant fall in occupancy rates which impacted the Group's financial performance and cash flows.

As stated in Note 2, these events or conditions, along with other matters as set forth in Note 26, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Report on the Audit of Consolidated Financial Statements (continued)

Emphasis of Matter

1. We draw attention to Note 9 to the consolidated financial statements, which states that the independent external valuations of right-of-use assets and investment properties are reported on the basis of 'Material valuation uncertainty' due to the potential effect of the Covid-19 pandemic. Consequently, more subjectivity is associated with determining the reasonableness of market assumptions, which are significant to the valuation of non-financial assets, than would normally be the case.
2. We draw attention to Note 21 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 2020.

Our opinion is not modified in respect of these matters.

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 2020 is operated as a Hotel that generates revenue from hotel operations. Right-of-use asset is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Recognition and measurement of right-of-use assets is disclosed in the accounting policies as set out in Note 2 to the consolidated financial statements. Given the COVID-19 pandemic and the significant impact it had on the Hotel's operations, Group determined that indicators of impairment existed at the reporting date and performed an impairment test to determine the recoverable amount of its right-of-use asset based on a value-in-use calculation. The value-in-use of the right-of-use asset was determined by accredited independent valuers 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.

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 (continued)

a) Impairment testing of right-of-use asset (continued)

The significant methods and assumptions used by the valuers in estimating the value-in-use of right-of-use asset is set out in Note 9 to the consolidated financial statements. Given the significance of right-of-use asset and the complexity of impairment testing, especially in light of the COVID-19 pandemic, and the importance of disclosures relating to assumptions used in 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 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 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 after considering the impact of the ongoing pandemic. Our internal specialists were part of our audit team and assisted with the review 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.

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 9 of the consolidated financial statements. Given the significance of investment properties on overall consolidated financial statements and the complexity of valuation, especially in light of the ongoing pandemic, and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties 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)

b) Valuation of investment properties (continued)

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 considering the impact of the ongoing pandemic.

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.

As part of our audit procedures, with respect to the share of results from associates, we have sent detailed group audit instructions to the auditors 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 while considering the impact of the ongoing pandemic.

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) Impairment testing of investment in associates (continued)

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 11 to the consolidated financial statements.

Other information included in the Group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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.

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.

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

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.
- ▶ 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.

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)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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.

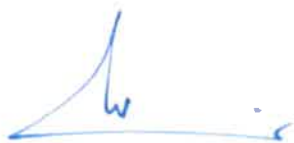
Report on Other Legal and Regulatory Requirements

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 2020 that might have had a material effect on the business of the Parent Company or on its financial position.

**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 (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2020 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

28 April 2021
Kuwait

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 KD	2019 KD
Operating revenue	5	2,642,823	11,087,841
Operating costs	5	(5,384,203)	(9,677,712)
Gross (loss) profit		(2,741,380)	1,410,129
Management fees	19	252,559	590,903
Net (loss) income from sukouk		(687,040)	1,475,266
Reversal of provisions no longer required		-	795,444
Impairment of right-of-use asset	9.1	(2,090,971)	(246,740)
Net loss from investment properties	9.2	(4,024,066)	(499,731)
Fair value (losses)/gain on financial assets at fair value through profit or loss		(2,764,806)	122,912
Income from deposits		9,338	26,886
Dividend income		197,243	-
Gain from extinguishment of financial liabilities		243,600	-
Gain on sale of furniture and equipment		634	-
Share of results of associates	11	(10,177,846)	1,658,906
Other income		182,715	491,669
General and administrative expenses	6	(2,240,180)	(2,741,683)
Provision for expected credit losses	13	(3,570,190)	(492,176)
Depreciation expense		(132,819)	(86,535)
Write-down of inventories		(518,776)	(88,137)
Finance costs on Islamic finance payables		(2,496,686)	(3,011,727)
Finance costs on lease obligations	17	(880,437)	(942,574)
Net foreign exchange differences		156,933	9,335
Loss before tax and board of directors' remuneration		(31,282,175)	(1,527,853)
(Charge for) reversal of tax expense	7	(393,853)	1,653,539
Board of directors' remuneration	19	(10,000)	(10,000)
(LOSS) PROFIT FOR THE YEAR		(31,686,028)	115,686
Attributable to			
Equity holders of the Parent Company		(26,674,228)	873,719
Non-controlling interests		(5,011,800)	(758,033)
		(31,686,028)	115,686
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (EPS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	8	(82.84) fils	2.71 fils

The attached notes 1 to 26 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 2020

	2020 KD	2019 KD
(LOSS) PROFIT FOR THE YEAR	(31,686,028)	115,686
Other comprehensive (loss) income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	206,689	2,300
Net other comprehensive income for the year that may be reclassified to profit or loss in subsequent periods	206,689	2,300
<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	(520,369)	(19,118)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(520,369)	(19,118)
Other comprehensive loss for the year	(313,680)	(16,818)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(31,999,708)	98,868
Attributable to:		
Equity holders of the Parent Company	(27,044,007)	851,641
Non-controlling interests	(4,955,701)	(752,773)
	(31,999,708)	98,868

The attached notes 1 to 26 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 2020

	Notes	2020 KD	2019 KD
ASSETS			
Non-current assets			
Furniture and equipment		263,270	338,361
Right-of-use asset	9.1	49,079,942	53,849,054
Investment properties	9.2	16,582,932	22,588,450
Investment in associates	11	19,513,809	30,182,157
Investment securities	12	2,089,168	5,583,648
		87,529,121	112,541,670
Current assets			
Accounts receivable and prepayments	13	5,102,883	9,451,262
Trading properties		530,370	530,370
Inventories		552,426	1,096,172
Wakala receivable		-	273,591
Bank balances and cash		3,300,397	5,880,812
		9,486,076	17,232,207
TOTAL ASSETS		97,015,197	129,773,877
EQUITY AND LIABILITIES			
Equity			
Share capital	14	32,200,000	32,200,000
Share premium	14	12,400,000	12,400,000
Statutory reserve	14	11,939,162	11,939,162
Other reserve	14	(309,291)	(309,291)
Fair value reserve	14	(2,132,468)	(1,612,099)
Foreign currency translation reserve	14	(188,270)	(338,860)
Accumulated losses		(33,602,151)	(6,927,923)
Equity attributable to equity holders of the Parent Company		20,306,982	47,350,989
Non-controlling interests	15	(8,347,395)	(3,003,223)
Total equity		11,959,587	44,347,766
Liabilities			
Non-current liabilities			
Employees' end of service benefits		733,201	984,411
Islamic finance payables	16	35,544,066	40,644,066
Obligations under finance lease	17	13,697,291	13,806,626
Accounts payable and accruals	18	4,996,086	4,993,000
		54,970,644	60,428,103
Current liabilities			
Islamic finance payables	16	12,615,341	7,817,608
Obligations under finance lease	17	1,014,966	1,007,040
Accounts payable and accruals	18	16,454,659	16,173,360
		30,084,966	24,998,008
Total liabilities		85,055,610	85,426,111
TOTAL EQUITY AND LIABILITIES		97,015,197	129,773,877

Abdullah Fuad Abdullah Al-Thaqeb
Chairman

Eisa Najib Abdulmohsen Al Eisa
Acting Chief Executive Officer

The attached notes 1 to 26 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 2020

	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 2020	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
Loss for the year	-	-	-	-	-	-	-	-	(26,674,228)	(26,674,228)	(5,011,800)	(31,686,028)
Other comprehensive (loss) income for the year	-	-	-	-	-	(520,369)	-	150,590	-	(369,779)	56,099	(313,680)
Total comprehensive (loss) income for the year	-	-	-	-	-	(520,369)	-	150,590	(26,674,228)	(27,044,007)	(4,955,701)	(31,999,708)
Capital redemptions in a subsidiary	-	-	-	-	-	-	-	-	-	-	(388,471)	(388,471)
At 31 December 2020	32,200,000	12,400,000	11,939,162	-	(309,291)	(2,132,468)	-	(188,270)	(33,602,151)	20,306,982	(8,347,395)	11,959,587
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	-	-	-	-	-	-	(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
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 14)	-	-	-	(7,512,156)	-	-	-	-	7,512,156	-	-	-
Capital redemptions in a subsidiary	-	-	-	-	-	-	-	-	-	-	(665,473)	(665,473)
Changes in ownership interests in a subsidiary (Note 21)	-	-	-	-	(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

The attached notes 1 to 26 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 2020

	Notes	2020 KD	2019 KD
OPERATING ACTIVITIES			
Loss before tax and board of directors' remuneration		(31,282,175)	(1,527,853)
<i>Adjustments to reconcile loss before tax to net cash flows:</i>			
Depreciation of right-of-use asset	9.1	2,810,030	3,309,184
Net loss from fair value remeasurement of investment properties	9.2	6,044,894	2,403,468
Impairment of right-of-use assets	9.1	2,090,971	246,740
Net loss / (gain) on financial assets at FVPL		2,764,806	(122,912)
Income from deposits		(9,338)	(26,886)
Dividend income		(197,243)	-
Share of results of associates	11	10,177,846	(1,658,906)
Depreciation of furniture and equipment		132,819	86,535
Gain from extinguishment of financial liabilities		(243,600)	-
Gain on sale of furniture and equipment		(634)	-
Finance costs on Islamic finance payable		2,496,686	3,011,727
Finance costs on lease obligations	17	880,437	942,574
Reversal of provisions no longer required		-	(795,444)
Write-down of inventories		518,776	88,137
Net foreign exchange differences		(156,933)	(9,335)
Provision for expected credit losses	13	3,570,190	492,176
Provision for employees' end of service benefits		(35,807)	(63,425)
		(438,275)	6,375,780
<i>Working capital changes:</i>			
Accounts receivable and prepayments		778,189	(1,629,781)
Inventories		24,970	(248,896)
Accounts payable and accruals		816,419	1,401,744
Cash flows from operations		1,181,303	5,898,847
Employees' end of service benefits paid		(215,403)	(133,051)
Taxes paid		(700,745)	(1,874,200)
Receipt of government grants		22,934	-
Net cash flows from operating activities		288,089	3,891,596
INVESTING ACTIVITIES			
Purchase of furniture and equipment		(28,053)	(159,785)
Additions to right-of-use asset		(55,659)	(124,188)
Proceeds from capital redemption of financial assets at FVPL		209,304	326,257
Proceeds from (investment in) wakala receivables		273,591	(54,713)
Dividends income received		197,243	-
Proceed from sale of furniture and equipment		851	-
Proceeds from capital redemption in an associate	11	-	3,769,349
Dividend income received from an associate	11	574,996	479,571
Income received from deposits		9,338	26,886
Net cash flows from investing activities		1,181,611	4,263,377
FINANCING ACTIVITIES			
Net repayment of Islamic finance payables	16	(300,000)	(2,180,000)
Payment of obligations under finance lease		(779,166)	(1,007,400)
Finance costs paid	16	(2,574,809)	(3,979,717)
Capital redemption paid to non-controlling interests		(388,471)	(665,473)
Dividends paid to equity holders of the Parent Company		(1,450)	(15,213)
Net cash flows used in financing activities		(4,043,896)	(7,847,803)
(DECREASE) INCREASE IN BANK BALANCES AND CASH		(2,574,196)	307,170
Bank balances and cash at 1 January		5,880,812	5,575,413
Net foreign exchange differences		(6,219)	(1,771)
BANK BALANCES AND CASH AT 31 DECEMBER		3,300,397	5,880,812

The attached notes 1 to 26 form part of these consolidated financial statements.

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 2020

1 CORPORATE AND GROUP INFORMATION

1.1 CORPORATE INFORMATION

The consolidated financial statements of Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of board of directors on 27 April 2021. The shareholders of the Parent Company 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 2020 approved the consolidated financial statements for the year ended 31 December 2019. 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 Sharī'a as approved by the Fatwa and Sharī'a Board appointed by the Parent Company.

1.2 GROUP INFORMATION

a) Associates

Name	Country of incorporation	% equity interest		Principal activities
		2020	2019	
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

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 2020

1 CORPORATE AND GROUP INFORMATION (continued)

1.2 GROUP INFORMATION (continued)

b) Subsidiaries

The consolidated financial statements of the Group include:

Name	Country of incorporation	% equity interest		Principal activities
		2020	2019	
Directly held				
Munshaat for Projects and Contracting Company Limited	KSA	99%	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 21)	Kuwait	62.81%	62.81%	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 15 for more details.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The outbreak of the COVID-19 pandemic and the measures adopted by governments in countries worldwide to mitigate the pandemic’s spread have significantly impacted the Group. The capacity constraints and restrictions imposed by the government on Hajj and Umrah activities required the Group to temporarily cease its hotel operations for periods of four to five months in 2020. This has negatively impacted the Group’s financial performance for the year and also its liquidity position.

For the year ended 31 December 2020, the Group recognised a net loss of KD 31,686,028 and, as of that date, its current liabilities exceeded its current assets by KD 20,598,890. In addition to the above, the Group’s accumulated losses at the reporting date amounted to KD 33,602,151 which is in excess of its paid-up share capital.

The currently known impact of COVID-19 on the Group are:

- ▶ A decline in hotel operating revenue of 2020 compared to 2019 by 76% which is offset against lower hotel operating costs by 60%.
- ▶ A decrease in net management fees and sukuk income 121% in 2020 compared to 2019.
- ▶ Share of loss from associates of KD 10,177,846 in 2020 compared to a profit of KD 1,658,906 in 2019.
- ▶ Fair value decreases in investment properties by 27% since 31 December 2019.
- ▶ Decline in fair values of equity investments held by the Group amounting to KD 3,285,176 since 31 December 2019.
- ▶ Impairment of right-of-use asset for the year 2020 amounting to KD 2,090,971 in total (Note 9).
- ▶ Impairment allowance on receivables for the year 2020 amounting to KD 3,570,190 in total due to significant financial difficulties being experienced by certain debtors.

As a result of these effects, the Group’s operating results have declined significantly in 2020. Also, the Group’s liquidity headroom has been negatively impacted.

2 FUNDAMENTAL ACCOUNTING CONCEPT (continued)

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the longer term impact on our business may be. The COVID-19 virus can evolve in various directions. If society, and as a consequence business, is exposed to COVID-19 for a longer period of time, this may result in prolonged negative results and pressure on our liquidity

Management seeks to obtain the best possible information to assess these risks and implement appropriate measures to respond. The Group has taken and will take a number of measures to monitor and prevent the effects of the pandemic, preserve cash and boost liquidity.

- ▶ Management has prepared a detailed cashflow analysis for the next 12 months from the date of authorisation of these consolidated financial statements to assess the liquidity position of the Group and identify liquidity gaps under various scenarios. The management has concluded that the Group will be able to meet all its obligations due including repayment of Islamic finance payables for the next 12 months
- ▶ Management has successfully negotiated with a related party financial institution to reschedule the principal repayment terms of Islamic finance payables from December 2020 until December 2021.
- ▶ Management has taken actions to reduce operating losses by ceasing operations of hotels owned and by managed by the Group. Cost savings measure included employee furlough together with other employee cost reductions. Further, supplier costs decreased significantly due to temporary hotel closures, together with a reduction in non-essential operating and capital expenditure as a result of Covid-19.
- ▶ Management initiated discussions with lessors requesting an extension of the leasehold rights owned or managed by the Group to compensate for the periods of downtime for the hotels due to Covid-19.

Further, as required by Article (271) of the Companies Law, the board of directors of the Parent Company called for an extra ordinary general assembly (EGM) to discuss the going concern issue and determine whether the situation necessitates the dissolution of the Parent Company or take appropriate measures to continue in operations. As a result, an EGM was held on 1 February 2021 and the shareholders approved the board of directors recommendation to partially extinguish accumulated losses by fully utilising the full balance of share premium amounting to KD 12,400,000.

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its banking facilities as they fall due. However, based on the facts and circumstances known at this moment and the possible scenarios about how the pandemic and resulting government measures could evolve, management has determined that the use of the going concern assumption is warranted and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the Group's consolidated financial statements.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.2.1 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 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: *Definition of a Business*

In October 2019, 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.

Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2019, 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 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 *COVID-19 Related Rent Concessions*

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

3.2.2 Summary of accounting policies for new transactions and events

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group's consolidated financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.4 SIGNIFICANT ACCOUNTING POLICIES

3.4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent 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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2 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.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement profit or loss.

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.

3.4.3 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.3 Revenue recognition (continued)

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, except for contingent rental income which is recognised when it arises. 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.

3.4.4 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.

3.4.5 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.

3.4.6 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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.6 Foreign currencies (continued)

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).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

3.4.7 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).

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 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.

3.4.8 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.

3.4.9 Furniture and equipment

Furniture and equipment is stated at cost, net of accumulated depreciation and 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.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.10 Leases

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 lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) 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, and 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 incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (3.4,16) Impairment of non-financial assets.

ii) 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. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the profit 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 profit 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (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) and lease of low-value assets. 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.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.10 Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.4.11 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 the policy stated under "furniture and equipment 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. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

3.4.12 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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.12 Investment in associates (continued)

The consolidated statement of profit or loss reflects the Group's share of results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. 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.

3.4.13 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.

3.4.14 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.

3.4.15 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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.15 Financial instruments – initial recognition and subsequent measurement

i) Financial assets (continued)

Initial recognition and initial measurement (continued)

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 at fair value through OCI with recycling of cumulative gains and losses (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

The Group does not hold any debt instruments at FVOCI.

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, trade and other receivables.

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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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:

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial liabilities include obligations under finance lease, accounts payable and accruals and Islamic finance payables.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities (continued)

Initial recognition and measurement (continued)

All financial liabilities are recognised initially at fair value and, in the case of accounts payable, net of directly attributable transaction costs. Refer to the accounting policy on leases for the initial recognition and measurement of lease liabilities, as this is not in the scope of IFRS 9.

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.

3.4.16 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.

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.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.16 Impairment of non-financial assets (continued)

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.

3.4.17 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.

3.4.18 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.

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.18 Fair value measurement (continued)

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.

Fair value of non-financial assets are based on valuation techniques determined by the independent valuers (Refer to Note 9.2 for further details).

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.

3.4.19 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.

3.4.20 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.

3.4.21 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.

3.4.22 Dividend distribution

The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the Companies Law, a distribution is authorised when it is approved by the shareholders at the AGM. A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

3.4.23 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.24 Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) 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.

4 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.

4.1 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 – Group as lessee

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.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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 the future use is estimated to be for operations and to generate operating cash flows.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

4.1 Significant judgments (continued)

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.

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.

4.2 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.

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

4.2 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 9.1

Provision for expected credit loss (ECL) of trade and other receivables

The Group applies a simplified approach in calculating ECL for its trade and other receivables. 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 9.

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.

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 2020

5 OPERATING REVENUE AND COST

	2020 KD	2019 KD
Operating revenue		
Hotel revenue	2,642,823	11,087,841
Type of goods or service		
Room revenue	1,752,036	7,454,976
Food and beverage	872,859	3,364,703
Other hotel revenues	17,928	268,162
Total revenue from contracts with customers	2,642,823	11,087,841
Timing of revenue recognition		
Hotel revenue earned at a point in time	2,642,823	11,087,841
	2,642,823	11,087,841
Geographical markets		
Kingdom of Saudi Arabia	2,642,823	11,087,841
Operating costs		
Hotel operating costs	(2,574,173)	(6,368,528)
Depreciation of right-of-use asset	(2,810,030)	(3,309,184)
	(5,384,203)	(9,677,712)

6 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff costs of KD 1,245,668 (2019: KD 1,641,637).

7 (CHARGE FOR) REVERSAL OF TAX EXPENSE

The Group, having received tax advice from its tax consultant, has only recorded zakat which is payable to the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia ("KSA") for the year ended 31 December 2020. Also, Group's subsidiary in Egypt is liable to the Egyptian Tax Authority ("ETA") for corporate income tax as per applicable Egyptian tax regulations.

During the current year, Group recorded a tax provision in a subsidiary domiciled in Egypt relating to corporate income tax and penalties as a result of ongoing assessments for earlier years which is payable to ETA and Zakat payable to GAZT in Kingdom of Saudi Arabia. As a result, Group recognised a corporate tax expense of KD 393,853 in the consolidated statement of profit or loss for the year then ended. In 2019, the Group reversed tax provisions no longer required amounting to KD 1,653,539 relating to its operations in Kingdom of Saudi Arabia ("KSA").

8 EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the (loss) profit 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 (loss) profit 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8 EARNINGS PER SHARE (EPS) (continued)

	2020	2019
(Loss) profit for the year attributable to the equity holders of the Parent Company (KD)	(26,674,228)	873,719
Weighted average number of ordinary shares outstanding during the year (shares)	322,000,000	322,000,000
Basic and diluted EPS (fils)	(82.84)	2.71

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.

9 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES

9.1 Right-of-use asset

Right-of-use asset represents “Qeblah Tower”, a leasehold property located in Kingdom of Saudi Arabia and operated as a hotel by an international hotel operator, and “Zamzam Tower” for a period of 5 months starting on 01 October 2029 to 28 February 2030.

Set out below are the carrying amounts of right-of-use asset recognised and the movements during the year:

	2020 KD	2019 KD
As at 1 January	53,849,054	66,375,239
Transfer to investment properties	-	(9,371,749)
Transfer from prepaid operating lease (Note 10)	-	1,772,540
Impairment of right-of-use asset	(2,090,971)	(246,740)
Discount received on future lease payments	-	(1,449,542)
Depreciation of right-of-use asset (Note 5)	(2,810,030)	(3,309,184)
Additions	55,659	124,188
Exchange differences	76,230	(45,698)
As at 31 December	49,079,942	53,849,054

Right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use asset is depreciated on a straight-line basis over the lease term from the date the asset is available for intended use. As at the reporting date, the remaining period of the lease was 20.92 years (2019: 21.92 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*’.

As detailed in Note 2 and 26, due to the Covid-19 pandemic and resulting measures taken by various governments to contain the virus, the Group has temporary ceased its hotel operations in KSA from 1 April 2020 until September 2020 causing a significant deterioration in financial conditions for the Group and an increase in economic uncertainty, hence triggering the requirement for impairment tests of certain non-financial assets such as ROU asset. Accordingly, the Group engaged an independent valuation specialist (“external expert”) to perform the impairment assessment for certain non-financial assets such as the ROU asset and investment in associates during the third quarter of the year. The management determined that the uncertainty is likely to continue in the current environment and therefore reassessed the estimates and assumptions used by the external expert to factor the possible effect of slow market recovery and Covid-19 related uncertainties. As a result of this analysis, the carrying amount of the ROU asset has been reduced to its recoverable amount through recognition of an impairment charge of KD 2,090,971. The impairment charge is presented as a separate line item in the consolidated statement of profit or loss for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES**9.2 Investment properties (continued)**

The movement in investment properties is as follows:

	2020 KD	2019 KD
As at 1 January	22,588,450	15,621,744
Transfer from right-of-use asset	-	9,371,749
Net loss from fair value remeasurement	(6,044,894)	(2,403,468)
Exchange differences	39,376	(1,575)
As at 31 December	16,582,932	22,588,450

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 8,572,037 (2019: KD 8,967,670) are pledged against Islamic finance payables (Note 16).

Al Safwa Tower in KSA is leased to a single tenant who uses the property to provide hospitality services to pilgrims. Due to the economic disruption caused by the COVID-19 coronavirus pandemic, the tenant has been significantly hit by the pandemic. The highly uncertain economic outlook for the period may have a material adverse effect on the tenant's operations, the viability of its business and its ability to meet rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from the tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination.

As at 31 December 2020, the Group has factored in the potential impact of the COVID-19 pandemic by modifying the previous year's assumptions to reflect greater uncertainty over long-term cash flows and long-term growth prospects and increased risk of defaults and non-payment of rent. 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.

	2020 KD	2019 KD
Net loss from fair value remeasurement	(6,044,894)	(2,403,468)
Net rental income derived from investment properties	2,020,828	1,903,737
Net loss arising from investment properties carried at fair value	(4,024,066)	(499,731)

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Fair value hierarchy disclosures for investment properties are in Note 23.2.

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

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9 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

Description of valuation techniques used, key inputs to valuation of investment properties and key assumptions used in value in use calculation of ROU asset:

Type of property	Valuation technique	Significant unobservable inputs	Range	
			2020	2019
a. Right-of-use asset				
Qeblah 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 	242-528 3%-63% 30%-76% 10% 2% 37%-46%	450 - 562 2.00% - 4.90% 74% - 76 % 9.50% 2% 57% - 59%
b. Investment properties				
• Sharq land – State of Kuwait	Market comparison approach	▶ Price per square meter	KD 3,250 KD 3,400	KD 3,400 KD 3,600
• 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 20% (2019: 15%).		
• Shopping mall, KSA	DCF	<ul style="list-style-type: none"> ▶ Estimated yearly rent in SAR per square metre ▶ Occupancy rate ▶ Discount rate 	855-11,444 40%-95% 9.50%	1,000-5,278 50%-95% 9.50%

*RevPAR = Revenue Per Available Room.

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

Under the DCF method, fair value 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

Sensitivity to key assumptions used in value in use (VIU) calculations of ROU asset

The calculation of VIU for the ROU asset is most sensitive to the following assumptions:

- ▶ Rev PAR growth
- ▶ Occupancy rates
- ▶ Risk-adjusted discount rate
- ▶ Gross operating profit

The implications of the key assumptions for the recoverable amount are discussed below:

- RevPAR - A decline in RevPAR may lead to a decline in hospitality income. A decrease in RevPAR of 5% would result in further impairment of KD 2,453,997.
- Occupancy rate - A decline in occupancy rates may lead to a decline in hospitality income. A decrease in occupancy rate of 5% would result in further impairment of KD 3,360,937.
- Discount rates - A rise in pre-tax discount rate by 2% to 12% would result in further impairment of KD 7,332,864.
- Gross operating profit - decreased demand can lead to a decline in the gross margin. A decrease in the gross margin by 5% would result in a further impairment of KD 2,453,997.

Sensitivity to changes in assumptions in fair value measurement of Level 3 investment properties

Significant judgement is required when evaluating the inputs into the fair value determination of the investment property. Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the fair value of Al Safwa property by the amounts shown below. The effect of the COVID-19 pandemic has meant that the range of reasonably possible changes is wider for the 2020 figures than for the comparative year.

Changes in assumption in fair value measurement of Shopping mall, KSA:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Increase KD</i>	<i>Decrease KD</i>	<i>Increase KD</i>	<i>Decrease KD</i>
Discount rate (2020: 2% movement; 2019: 1% movement)	(833,991)	987,834	(566,440)	647,360
Occupancy rate (2020: 5% movement; 2019: 5% movement)	412,947	(421,044)	485,520	(485,520)
Rent-free periods (2020: 3-month change; 2019: 3-month change)	(72,873)	72,873	(242,760)	161,840

Changes in assumption in fair value measurement of Al Safwa property:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Increase KD</i>	<i>Decrease KD</i>	<i>Increase KD</i>	<i>Decrease KD</i>
Discount rate (2020: 2% movement; 2019: 1% movement)	(10,526)	13,765	(105,196)	48,552

There is a degree of inter-relationship between the unobservable inputs used in the fair value measurement of the commercial property. An increase in demand may increase the market rental rates and may result in shorter void periods and higher occupancy rates. A decrease in occupancy rates may result in longer void periods and a decrease in market rental rates.

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9 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

The fair value measurements for Al Safwa property has been categorised as Level 3 of the fair value hierarchy based on the inputs to the valuation techniques used. The fair value measurement of Sharq land has been categorised as Level 2 of the fair value hierarchy based on observable market sales data.

	Total KD	Fair value measurement using		
		Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD
31 December 2020				
Investment properties	16,582,932	-	8,572,037	8,010,895
31 December 2019				
Investment properties	22,588,450	-	8,967,670	13,620,780

Market conditions and valuation uncertainty

The Group's investment properties and ROU assets that are both separately recognised and included within investment in associates (collectively, referred to hereunder as "properties") were revalued by the external valuer, Jones Lang LaSalle Saudi Arabia Company for Real Estate Valuation ("JLL"), in accordance with the Taaqim Regulations (Saudi Authority for Accredited Valuers) and Royal Institution of Chartered Surveyors Valuation – Global Standards effective January 2020 ("the Standards") and in conformity with the guidance notes of the International Valuation Standards ("IVS"). All the properties are revalued at period-end regardless of the date of acquisition. This includes a physical inspection of all properties, at least once a year. In line with IFRS 13, all properties are valued on the basis of their highest and best use.

For these valuations, the outbreak of Covid-19 has had a significant impact on market activity causing some uncertainty for property valuations. Consequently, the valuers have included a material valuation uncertainty clause in their valuation report which states:

"As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuation is therefore reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review."

The Executive Management conducted a detailed review of each property valuation to review appropriate assumptions have been applied. Meetings are held with the valuers to review and challenge the valuations, to confirm that they have considered all relevant information, and rigorous reviews are performed to check that valuations are sensible. In particular, they discussed the impact on the valuation of the Covid-19 rent reductions. They are satisfied with the valuers conclusions.

10 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 previous year, upon adoption of IFRS 16 *Leases*, the prepaid operating lease was reclassified to right-of-use asset (Note 9) and any balance in the asset revaluation surplus in relation to the asset is transferred to accumulated losses in shareholders' equity.

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

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11 INVESTMENT IN ASSOCIATES

<i>Name</i>	<i>Country of domicile</i>	<i>% equity interest</i>		<i>Carrying amount</i>	
		<i>2020</i>	<i>2019</i>	<i>2020 KD</i>	<i>2019 KD</i>
The Zamzam 2013 JV ("Zamzam")	Kuwait	36.69%	36.69%	17,671,316	25,369,451
Athman Al Khaliyya Company W.L.L. ("Athman")	Kuwait	32.60%	32.60%	1,842,493	4,812,706
				19,513,809	30,182,157

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

	<i>2020 KD</i>	<i>2019 KD</i>
As at 1 January	30,182,157	32,798,051
Capital redemption	-	(3,769,349)
Dividends received	(574,996)	(479,571)
Share of (loss) profit	(10,177,846)	1,658,906
Exchange difference on translation of foreign operations	84,494	(25,880)
As at 31 December	19,513,809	30,182,157

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11 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	
	2020	2019	2020	2019	2020	2019
	KD	KD	KD	KD	KD	KD
Non-current assets	51,820,800	74,996,105	5,560,017	14,672,610	57,380,817	89,668,715
Current assets	10,629,804	10,704,872	93,905	92,871	10,723,709	10,797,743
Current liabilities	(14,289,387)	(12,943,434)	(1,500)	(1,000)	(14,290,887)	(12,944,434)
Equity	48,161,217	72,757,543	5,652,422	14,764,481	53,813,639	87,522,024
Group's share in equity %	36.69%	36.69%	32.60%	32.60%		
Group's carrying amount of the investment*	17,671,316	26,696,201	1,842,493	4,812,706	19,513,809	31,508,907
Revenues	3,981,038	20,477,880	-	2,402,887	3,981,038	22,880,767
Cost of revenue / Loss	(5,349,701)	(10,305,064)	(7,329,243)	-	(12,678,944)	(10,305,064)
Amortisation and impairment	(23,404,578)	(7,679,231)	-	-	(23,404,578)	(7,679,231)
General and administrative expenses, management fee and (charge) / reversal of taxes	(53,364)	(1,264,141)	(18,335)	(1,914)	(71,699)	(1,266,055)
(Loss) profit for the year	(24,826,605)	1,229,444	(7,347,578)	2,400,973	(32,174,183)	3,630,417
Group's share of (loss) profit for the year	(7,782,629)	881,472	(2,395,217)	777,434	(10,177,846)	1,658,906

*The carrying amount of Zamzam is adjusted to eliminate a downstream transaction of Nil (2019: KD 1,326,750).

The above associates are unquoted and there is no quoted market prices available for its shares. As detailed in Note 2, due to the Covid-19 pandemic and resulting measures taken by various governments to contain the virus, the associates temporarily ceased commercial operations in KSA effective from 1 April 2020 until September 2020 causing a significant deterioration in financial conditions for the associates and an increase in economic uncertainty, hence triggering the requirement for impairment tests of certain non-financial assets such as ROU assets.

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12 INVESTMENT SECURITIES

	2020 KD	2019 KD
Financial assets at fair value through profit or loss (FVPL)	1,775,574	4,749,684
Financial assets at fair value through other comprehensive income (FVOCI)	313,594	833,964

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 23.

13 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2020 KD	2019 KD
Tenant receivables	10,168,730	9,464,648
Less: Allowance for expected credit losses	(8,758,579)	(5,188,389)
	1,410,151	4,276,259
Amounts due from related parties (Note 19)	1,064,025	2,830,721
Advances to contractors	1,658,477	1,657,451
Prepaid expenses	17,510	11,147
Other receivables	952,720	675,684
	5,102,883	9,451,262

Tenant receivables are non-interest bearing and are generally on terms of 30-90 days. The net carrying value of tenant receivables is considered a reasonable approximation of fair value.

Note 22.1 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's tenant 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:

	2020 KD	2019 KD
Opening loss allowance at 1 January	5,188,389	4,696,213
Allowance recognised in profit or loss during the year	3,570,190	496,472
Unused amount reversed	-	(4,296)
Closing loss allowance at 31 December	8,758,579	5,188,389

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14 EQUITY

14.1 Share capital

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	322,000,000	322,000,000	32,200,000	32,200,000

14.2 Share premium

Share premium represents the difference between the nominal value of the shares issued and the subscription or issue price. The reserve is not available for distribution except in cases stipulated by the Companies Law.

The Board of Directors of the Parent Company in their meeting held on 11 November 2020 proposed to partially extinguish accumulated losses as at 30 September 2020 through utilising the full balance of share premium as of that date. Subsequent to the reporting date, this proposal has been approved by the shareholders at the extraordinary general assembly meeting ("EGM") held on 1 February 2021.

14.3 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.

14.4 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 2020, the shareholders approved the partial extinguishment of accumulated losses as at 31 December 2019 amounted to KD 7,512,156 through utilising the full balance of voluntary reserve as of that date.

14.5 Other reserve

This reserve represents effect of changes in ownership interest in subsidiaries without a change in control.

For details of movement in the reserve during the year, refer to Note 21.

14.6 Fair value reserve

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

14.7 Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

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

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15 MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Name	Country of domicile	Non-controlling interest	
		2020	2019
Al Safwa Joint Venture ("Safwa JV")	Kuwait	60%	60%
Al Qebalah JV ("Qebalah JV")	Kuwait	37.19%	37.19%
		2020	2019
		KD	KD
Accumulated balance of material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		1,065,691	4,295,956
Al Qebalah JV ("Qebalah JV")		(9,413,086)	(7,299,179)
		<u>(8,347,395)</u>	<u>(3,003,223)</u>
(Loss) profit allocated to material non-controlling interest:			
Al Safwa Joint Venture ("Safwa JV")		(2,880,450)	109,085
Al Qebalah JV ("Qebalah JV")		(2,131,350)	(867,119)

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

Summarised statement of profit or loss:

	Qebalah JV		Safwa JV	
	2020	2019	2020	2019
	KD	KD	KD	KD
Revenue	1,277,388	5,394,958	1,885,232	1,862,673
Cost of revenue	(2,779,919)	(4,318,711)	(94,262)	(93,134)
Other income (expense)	22,075	(25,531)	(8,582)	1,583
Gain from extinguishment of financial liability	74,143	-	-	-
Impairment loss	(1,706,981)	(246,740)	(3,493,062)	(1,992,844)
Provision for expected credit loss	-	(5,545)	(3,047,985)	(10,179)
Tax expense reversal	-	-	(27,703)	429,751
Finance costs	(2,575,757)	(3,086,890)	-	-
Administrative expenses	(41,926)	(43,132)	(6,448)	(16,342)
(Loss) profit for the year	(5,730,977)	(2,331,591)	(4,792,810)	181,508
Total comprehensive (loss) income	(5,730,977)	(2,331,591)	(4,792,810)	181,508
Attributable to non-controlling interests	(2,131,350)	(867,119)	(2,880,450)	109,085

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15 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of financial position:

	Qebalah JV		Safwa JV	
	2020	2019	2020	2019
	KD	KD	KD	KD
Investment properties	-	-	942,215	4,395,900
Right-of-use asset	27,086,521	30,413,859	-	-
Accounts receivables	71,996	1,786,655	593,827	2,090,043
Other current assets	1,139,996	788,954	300,935	922,947
Total assets	28,298,513	32,989,468	1,836,977	7,408,890
Accounts payable	53,609,313	52,616,191	63,763	260,807
Total liabilities	53,609,313	52,616,191	63,763	260,807
Total (deficit) equity	(25,310,800)	(19,626,723)	1,773,214	7,148,083
Attributable to:				
Equity holders of Parent Company	(15,897,713)	(12,327,545)	707,523	2,852,127
Non-controlling interests	(9,413,087)	(7,299,178)	1,065,691	4,295,956
	(25,310,800)	(19,626,723)	1,773,214	7,148,083

Summarised cash flow information for the year ended 31 December:

	Qebalah JV		Safwa JV	
	2020	2019	2020	2019
	KD	KD	KD	KD
Operating activities	1,926,074	1,809,964	5,427	1,070,604
Investing activities	(42,343)	(76,060)	-	1,407
Financing activities	(2,649,176)	(1,091,528)	(636,825)	(1,103,102)
Net (decrease) increase in cash and cash equivalents	(765,445)	642,376	(631,398)	(31,091)

16 ISLAMIC FINANCE PAYABLES

	2020	2019
	KD	KD
Current		
Murabaha payable	5,121,562	5,433,508
Tawarruq payable*	7,509,934	2,409,934
Less: deferred finance costs	(16,155)	(25,834)
	12,615,341	7,817,608
Non-current		
Tawarruq payable*	35,544,066	40,644,066
	48,159,407	48,461,674

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16 ISLAMIC FINANCE PAYABLES (continued)

- * 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 18). The facility is repayable over a period of 10 years in annual instalments starting from 1 December 2020 and maturing on 1 December 2028.

Islamic finance payables bear an average finance cost of 5.5% (2019: 5.75%) per annum and are denominated in Kuwaiti Dinar.

Murabaha payables are secured over certain of the Group's investment properties (Note 9). 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.

	2020 KD	2019 KD
As at 1 January	48,461,674	50,639,407
<i>Cash flows:</i>		
Repayments of borrowings	(300,000)	(2,180,000)
Payment of finance costs	(2,574,809)	(3,037,143)
<i>Non-cash movements:</i>		
Foreign exchange movement	(2,267)	2,267
Finance costs	2,574,809	3,037,143
As at 31 December	48,159,407	48,461,674

Information about the Group's exposure to profit rate, foreign currency and liquidity risks is included in Note 22.

17 OBLIGATIONS UNDER FINANCE LEASE

	2020 KD	2019 KD
Lease obligations	14,712,257	14,813,666
Less: current portion	(1,014,966)	(1,007,040)
Long-term obligations under finance lease	13,697,291	13,806,626

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17 OBLIGATIONS UNDER FINANCE LEASE (continued)

The major obligations under finance lease relates to Qebalah 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:

	2020 KD	2019 KD
2020	-	1,007,040
2021	1,014,966	1,007,040
2022	1,014,966	1,007,040
2023	1,014,966	1,007,040
Thereafter	23,323,023	23,304,960
Total minimum lease payments	26,367,921	27,333,120
Less: future finance charges	(11,655,664)	(12,519,454)
Present value of minimum finance lease rental payments	14,712,257	14,813,666
Current portion of lease obligations	(1,014,966)	(1,007,040)
Non-current obligations under finance lease	13,697,291	13,806,626

Changes in obligations under finance lease is as follows:

	2020 KD	2019 KD
As at 1 January	14,813,666	16,182,359
Additions	28,948	155,953
Discount on lease payments	(243,600)	(1,445,265)
Finance cost	880,437	942,574
Repayments	(779,166)	(1,007,400)
Net foreign exchange difference	11,972	(14,555)
As at 31 December	14,712,257	14,813,666

18 ACCOUNTS PAYABLE AND ACCRUALS

	2020 KD	2019 KD
Payables to contractors for investment properties and right-of-use asset	1,741,696	1,740,603
Amounts due to related parties (Note 19)	1,168,566	1,402,477
Accrued expenses	764,105	535,519
Advances from customers	493,598	1,552,242
Payable to right-of-use asset manager and maintenance contractor	4,932,880	4,929,834
Zakat and taxation provision (Note 7)	5,487,526	5,693,403
Other payables	6,862,374	5,312,282
	21,450,745	21,166,360
Less: Current portion of accounts payable and accruals	(16,454,659)	(16,173,360)
Non-current portion of accounts payable and accruals	4,996,086	4,993,000

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19 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>Total 2020 KD</i>	<i>Total 2019 KD</i>
Consolidated statement of profit or loss					
Management fees income	-	-	252,559	252,559	590,903
Finance income	952	-	-	952	6,484
Finance costs	(2,282,180)	-	-	(2,282,180)	(2,688,624)
Management fees expenses	-	-	(53,960)	(53,960)	(438,255)
Consolidated statement of financial position					
Financial asset at fair value through profit or loss	-	-	1,126,416	1,126,416	3,647,906
Financial asset at fair value through other comprehensive income	-	-	191,455	313,594	833,964
Bank balances and cash	1,139,827	-	-	1,139,827	4,036,327
Accounts receivable and prepayments (Note 13)	-	12,387	1,049,571	1,064,026	2,830,721
Accounts payable and accruals	-	902,797	180,121	1,168,566	1,402,476
Islamic finance payables (Note 16)	43,054,000	-	-	43,054,000	43,056,267

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19 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 16, there have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Group has not recognised provision for expected credit losses relating to amounts owed by related parties (2019: Nil). 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 and outstanding balances 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 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	117,528	122,680	455,779	505,100
Post-employment benefits	297,537	367,739	(24,039)	29,719
	415,065	490,419	431,740	534,819

The Board of Directors at the meeting held on 11 April 2020 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2019. The proposal was approved by the shareholders at the AGM held on 16 May 2020.

The Board of Directors at the meeting held on 27 April 2021 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2020. This proposal is subject to the shareholders' approval at the AGM.

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20 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 11, are primarily engaged in real estate activities and accordingly no business segment is presented.

	<i>Year ended 31 December 2020</i>		
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total KD</i>
Revenue	261,897	4,159,326	4,421,223
Segment results	(3,924,561)	(27,357,614)	(31,282,175)
<i>Other disclosures</i>			
Depreciation and amortisation	(126,314)	(2,810,030)	(2,936,344)
Allowance for expected credit losses	(522,205)	(3,047,985)	(3,570,190)
Impairment	-	(2,609,747)	(2,609,747)
Total assets	13,674,633	83,329,515	97,004,148
Total liabilities	26,820,066	58,235,544	85,055,610

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

21 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 previous 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 acquisition of NCI without a change in control. The resultant decrease in equity attributable to equity holders of the Parent Company arising from this transaction amounted to KD 309,291 and recorded within other reserve (Note 14)

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22 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.

22.1 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:

	2020 KD	2019 KD
Tenant receivables	1,410,151	4,276,259
Amounts due from related parties	1,064,026	2,830,721
Other receivables (excluding advances to contractor and prepaid expenses)	952,720	675,684
Wakala receivable	-	273,591
Bank balances	3,300,397	5,880,812
	<u>6,727,294</u>	<u>13,937,067</u>

Tenant 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 13.

Bank balances

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 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 have low credit risk based on the external credit ratings of the counterparties.

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22 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

22.1 Credit risk (continued)

Other receivables and amounts due from relatives parties

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.

Concentration of financial assets

At 31 December, the exposure to credit risk for accounts receivables and cash at banks by geographic region was as follows

	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Other KD</i>	<i>Total KD</i>
<i>At 31 December 2020</i>				
Accounts receivable	2,157,747	1,234,161	34,989	3,426,897
Bank balances	2,849,882	374,364	76,151	3,300,397
	<u>5,007,629</u>	<u>1,608,525</u>	<u>111,140</u>	<u>6,727,294</u>
	<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>

Expected credit loss assessment for tenant receivables

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

<i>31 December 2020</i>	<i>Neither past due nor impaired KD</i>	<i>Past due and impaired KD</i>	<i>Total KD</i>
Estimated total gross carrying amount at default	542,274	9,626,456	10,168,730
Estimated credit loss	-	8,758,579	8,758,579
Expected credit loss rate	-	91%	
	<i>Neither past due nor impaired KD</i>	<i>Past due and impaired KD</i>	<i>Total KD</i>
<i>31 December 2019</i>			
Estimated total gross carrying amount at default	1,116,690	8,347,958	9,464,648
Estimated credit loss	-	5,188,389	5,188,389
Expected credit loss rate	-	62%	

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22 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

22.1 Credit risk (continued)

Expected credit loss assessment for tenant receivables (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Generally, tenant 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 disclosed above. As at 31 December 2020, the maximum credit exposure to a single counterparty amounted to KD 3,058,163 (2019: KD 10,179), which is partially secured by a guarantee. The guarantee is considered integral part of tenant receivables and considered in the calculation of impairment. At 31 December 2020, 41% (2019: 14%) of the Groups tenant receivables are covered by a guarantee. The guarantee obtained by the Group resulted in a decrease in the ECL of KD 581,234 as at 31 December 2020 (2019: KD 581,234).

As disclosed in Note 26, due to the Coronavirus (COVID-19) pandemic, the calculation of expected credit losses has been revised as at 31 December 2020 and rates have increased in each category up to 12 months overdue. The increase in loss allowance is mainly attributable to significant financial difficulties being experienced by certain tenants and increase in gross carrying amount of more than 90 days past due for specific customers with liquidity constraints arising as a direct result of the COVID-19 pandemic.

22.2 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 2020 (2019: 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 financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2020	<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	9,000	9,000	996,966	25,352,955	26,367,921
Islamic finance payables	5,105,407	-	8,970,693	48,769,981	62,846,081
Accounts payable and accruals*	936,227	1,641,594	2,752,565	4,442,250	9,772,636
	6,050,634	1,650,594	12,720,224	78,565,186	98,986,638
Year ended 31 December 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
	6,262,532	1,502,896	8,565,311	81,529,379	97,860,118

* excluding advances from customers, provisions and accrued expenses.

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22 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

22.3 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.

22.3.1 Profit rate risk

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

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

Exposure to profit rate risk

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

	2020	2019
	KD	KD
Fixed-rate instruments		
Financial assets	-	273,591
Financial liabilities	14,712,257	14,813,666
	14,712,257	15,087,257
Variable-rate instruments		
Financial liabilities	48,159,407	48,461,674

Cash flow sensitivity analysis for variable-rate instruments

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 481,594 (2019: KD 484,617). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities, at FVTPL, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

22.3.2 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.

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

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22 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

22.3 Market risk (continued)

22.3.2 Foreign currency risk (continued)

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

	2020 KD	2019 KD
SAR	20,423,887	24,051,548
USD	1,263,230	16,854,583

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:

Currency	Change in exchange rate	Monetary financial assets and liabilities			
		Effect on OCI		Effect on profit or loss	
		2020 KD	2019 KD	2020 KD	2019 KD
SAR	+5%	-	-	1,021,194	1,202,577
USD	+5%	9,573	49,082	53,589	842,729

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

22.3.3 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 1,967,029 (2019: KD 5,397,784). Sensitivity analyses of these investments have been provided in Note 23.

The majority of the Group's listed equity investments are publicly traded and are included in the Kuwait Stock Exchange ("KSE"). Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of KSE market index, the Group has determined that an increase/(decrease) of 5% on the respective market index could have an impact of approximately KD 6,107 (2019: KD 9,293) on the income and equity attributable to the Group.

23 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

23 FAIR VALUE MEASUREMENT (continued)

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 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 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>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Financial instruments		
Quoted equity securities	122,139	185,864
Unquoted equity securities	1,366,372	4,416,153
Unquoted funds	600,657	981,631
Investment securities (at fair value)	2,089,168	5,583,648
	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Non-financial assets		
Investment properties	16,582,932	22,588,450

23 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.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

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.

Investment properties

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.

Other financial assets and liabilities

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short-term maturity or re-priced immediately based on market movement in interest rates. The fair value of financial assets and financial liabilities with a demand feature is not less than its face value.

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23 FAIR VALUE MEASUREMENT (continued)

23.1 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 active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Total KD	KD	KD	KD
31 December 2020				
Financial assets at FVPL	1,775,574	-	-	1,775,574
Financial assets at FVOCI	313,594	122,139	-	191,455
	<u>2,089,168</u>	<u>122,139</u>	<u>-</u>	<u>1,967,029</u>
31 December 2019				
Financial assets at FVPL	4,749,684	-	-	4,749,684
Financial assets at FVOCI	833,964	185,864	-	648,100
	<u>5,583,648</u>	<u>185,864</u>	<u>-</u>	<u>5,397,784</u>

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

Reconciliation of Level 3 fair values

Reconciliation of fair value measurement of non-listed investment securities classified as Level 3:

	Financial assets at FVOCI KD	Financial assets at FVTPL KD	Total KD
2020			
As at 1 January 2020	648,100	4,749,684	5,397,784
Remeasurement recognised in OCI	(456,645)	-	(456,645)
Remeasurement recognised in profit or loss	-	(2,764,806)	(2,764,806)
Purchases / sales (net)	-	(209,304)	(209,304)
As at 31 December 2020	<u>191,455</u>	<u>1,775,574</u>	<u>1,967,029</u>
2019			
As at 1 January 2019	648,100	4,953,030	5,601,130
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>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

23 FAIR VALUE MEASUREMENT (continued)

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.

23.2 Non-financial assets

Non-financial assets consists of investment properties. The fair value of investment properties is categorised under level 2 and 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 2020 and 2019 are disclosed in Note 9.

The reconciliation of the opening and closing balances of the fair value hierarchy is disclosed in Note 9 to the consolidated financial statements.

24 CAPITAL MANAGEMENT

The Group's capital management objectives are:

- ▶ to ensure the Group's ability to continue as a going concern, and
- ▶ to provide an adequate return to shareholders by pricing products and services in a way that reflects the level of risk involved in providing those goods and services.

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Parent Company.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, utilise capital reserves to extinguish accumulated losses or issue new shares.

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.

	2020	2019
	KD	KD
Islamic finance payables	48,159,407	48,461,674
Obligations under finance leases	14,712,257	14,813,666
Accounts payable and accruals	21,450,745	21,166,360
Less: Bank balance and cash	(3,300,397)	(5,880,812)
Net debt	81,022,012	78,560,888
Equity attributable to equity holders of the Parent Company	20,306,982	47,350,989
Capital and debt	101,328,994	125,911,877
Gearing ratio	80%	62%

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any loans and borrowing in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 CAPITAL MANAGEMENT (continued)

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

25 PROPOSED DIVIDENDS

The Board of Directors in their meeting held on 27 April 2021 proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2020. 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 2020 resolved not to distribute cash dividends for the year ended 31 December 2019.

26 IMPACT OF COVID-19 OUTBREAK

The COVID-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic.

The measures to slow the spread of COVID-19 have had a significant impact on the global economy. Governments worldwide imposed travel bans and strict quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. While the country has started to ease the lockdown, the relaxation has been gradual. The COVID-19 pandemic has also resulted in significant volatility in financial markets and as a result, the government has announced measures to provide financial assistance to the private sector.

Entities should consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health authorities, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduced work shifts in operational areas to minimise the number of workers commuting, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature.

As a result, the Group considered the impact of COVID-19 in preparing its consolidated financial statements. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas.

Given the evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to estimates may need to be made in the measurement of the Group's assets and liabilities may arise in the future.

Trade and other receivables

The Group was required to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These were primarily related to adjusting the forward-looking estimates used by the Group in the estimation of ECL as the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables or by following specific guidance issued by the government in relation to the collection of rentals or other payments). The Group will continue to assess impact of the pandemic as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

Impairment of non-financial assets

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group's non-financial assets and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

26 IMPACT OF COVID-19 OUTBREAK (continued)

Impairment of non-financial assets (continued)

The Group acknowledges that certain geographies and sectors in which these assets are located are negatively impacted, and as the situation continues to unfold, the Group will continuously monitor the market outlook and use relevant assumptions in reflecting the values of these non-financial assets as and when they occur.

Fair value measurement of investment properties

The market disruption caused by the COVID-19 pandemic resulted in a reduction in transactional evidence and market yields, and accordingly, there is an increased risk that the price realised in an actual transaction would differ from the value conclusion arrived by the valuers.

The highly uncertain economic outlook for the period may have a material adverse effect on the tenants' operations, the viability of their business and their ability to meet their rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from existing tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021.

Government assistance

In an attempt to mitigate the impact of the COVID-19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made towards national workforce in the private sector for a period of up to six months effective from April 2020.

During the current year, the Group received an aggregate amount of KD 22,934. The financial support is accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and recognised in profit or loss as a deduction to 'staff costs' on a systematic basis over the periods in which the Group recognises expenses for the related staff costs. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

Going concern assessment

There is still significant uncertainty over how the outbreak will impact the Group's business in future periods and depending on the ease of restriction due to travel bans. Management has therefore modelled a number of different scenarios considering a period of 12 months from the date of authorisation of these consolidated financial statements in the light of current economic conditions and all available information about future risks and uncertainties. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations and expected recovery, along with management's proposed responses over the course of the period. The Group has had severe impact on its financial performance and operational activities during the year 2020 as a result of the COVID-19 pandemic. These events or conditions, along with other matters as set forth in Note 2 to the consolidated financial statements indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.