

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2023**



## **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 2023, and the 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 material accounting policy information.

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 2023, 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.

#### ***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 year. 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 of our audit opinion on the accompanying consolidated financial statements.

**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***

Right-of-use asset held by the Group as at 31 December 2023 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 3 to the consolidated financial statements. An impairment test was carried out to determine the recoverable amount of its right-of-use asset based on a value-in-use (VIU) calculation. The VIU 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.

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 10 to the consolidated financial statements. Given the significance of right-of-use asset and the complexity of impairment testing and the importance of disclosures relating to assumptions used in 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 evaluated the accuracy of the property data considered by the Group which are used as input for the purpose of impairment testing. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We further assessed reasonableness of the key assumptions and related estimation uncertainty. Our internal specialists were part of our audit team and assisted with the review of the impairment testing of the right-of-use asset by challenging the assumptions and estimates used.

**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)*

**b) Valuation of investment properties**

Investment properties comprise of a completed shopping mall in the Kingdom of Saudi Arabia held to earn rental income. The property is 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 shopping mall located in the Kingdom of Saudi Arabia is determined based on the discounted cash flow (DCF) method. The significant methods and assumptions used by the valuers in estimating the fair value of investment properties are set out in Note 10 of the consolidated financial statements. Given the significance of investment properties on overall consolidated financial statements and the complexity of valuation, and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter.

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

**c) Impairment testing of investment in associates**

Investment in associates are accounted for using the equity method of accounting. After application of the equity method, the Group determines whether there exists an objective evidence to recognise an impairment loss on its investment in associate based on the difference between the recoverable amount of the associate and its carrying value. The recoverable value of the material associates is determined based on the value-in-use, which is mainly derived from the underlying right-of-use asset. The valuation of these underlying right-of-use asset was performed by an accredited independent evaluator with recognised professional qualification and with relevant experience in the locations and category of the right-of-use asset being evaluated and is highly dependent on estimates and assumptions such as average room rate, revenue per available room, occupancy rate and discount rates.

The share of results from the associates are significant to the Group and reflects the Group's share of results of operations of the associates based on financial information of the associates. Given the significant judgment involved in determining the recoverable amount of the investment in associates, the materiality of the share of results and the carrying values of the Group's investment in associates to overall consolidated financial statements of the Group, we have considered this as a key audit matter.

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

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

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

***c) Impairment testing of investment in associates (continued)***

As part of our audit procedures, with respect to the share of results from associates, we have sent detailed group audit instructions to the 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. We evaluated the accuracy of the property data considered by the Group which are used as input for the purpose of valuation. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We assessed reasonableness of the key assumptions and related estimation uncertainty.

Our internal specialists were part of our audit team and assisted with the audit of the impairment testing of the right-of-use asset, including the assumptions and estimates used. Summarised financial information of the associates, and reconciliation to the carrying amount of the investment in the consolidated financial statements are set out in Note 11 to the consolidated financial statements.

***Other information included in the Group's 2023 Annual Report***

Management is responsible for the other information. Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

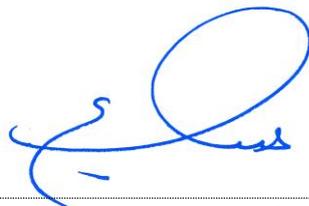
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or 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.

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

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company’s Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company’s Memorandum of Incorporation and Articles of Association, 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 have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Parent Company or on its financial position.

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 establishment of Capital Markets Authority “CMA” and organization of security activity and its executive regulations, as amended, during the year ended 31 December 2023 that might have had a material effect on the business of the Parent Company or on its financial position.



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ABDULKARIM ALSAMDAN  
LICENCE NO. 208-A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

10 March 2024  
Kuwait

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>KD</i>	<i>2022</i> <i>KD</i>
Operating revenue	5	<b>17,806,110</b>	12,132,408
Operating costs	5	<b>(11,390,786)</b>	(9,163,917)
<b>Gross profit</b>		<b>6,415,324</b>	2,968,491
Management fees	19	<b>546,162</b>	464,257
Net income from Sukouk		<b>830,265</b>	998,158
Net gain from investment properties	10.2	<b>5,990,371</b>	939,043
Reversal of impairment on right-of-use asset	10.1	<b>1,961,692</b>	-
Revaluation gain (loss) on financial assets at fair value through profit or loss		<b>239,424</b>	(165,148)
Realized gain from investments carried at fair value through profit or loss		-	310,601
Finance income		<b>16,630</b>	17,095
Gain from extinguishment of financial liabilities	18	<b>780,205</b>	613,707
Share of results of associates	11	<b>2,638,685</b>	765,577
Other income	6	<b>198,244</b>	334,278
General and administrative expenses	7	<b>(1,417,476)</b>	(1,254,024)
Net reversal (charge) of provision for expected credit losses	13	<b>697,480</b>	(1,462,005)
Depreciation expense		<b>(73,575)</b>	(79,293)
Write-down of inventories		<b>(67,490)</b>	(66,761)
Reversal (write-down) of trading properties		<b>275</b>	(275)
Finance costs on Islamic finance payables	16	<b>(2,182,012)</b>	(1,639,968)
Finance costs on lease obligations	17	<b>(872,975)</b>	(872,088)
Other finance costs	18	<b>(330,403)</b>	-
Net foreign exchange differences		<b>35,681</b>	169,677
<b>Profit before tax and board of directors' remuneration</b>		<b>15,406,507</b>	2,041,322
Overseas zakat	8	<b>(477,993)</b>	(523,716)
National Labour Support Tax (NLST)		<b>(97,076)</b>	(88,197)
Zakat		<b>(17,528)</b>	(34,815)
Board of directors' remuneration	19	<b>(10,000)</b>	(10,000)
<b>PROFIT FOR THE YEAR</b>		<b>14,803,910</b>	1,384,594
<b>Attributable to</b>			
Equity holders of the Parent Company		<b>12,794,305</b>	1,206,027
Non-controlling interests		<b>2,009,605</b>	178,567
		<b>14,803,910</b>	1,384,594
<b>BASIC AND DILUTED PROFIT PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	9	<b>39.73 Fils</b>	3.75 fils

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 KD	2022 KD
<b>PROFIT FOR THE YEAR</b>	<b>14,803,910</b>	1,384,594
<b>Other comprehensive income (loss)</b>		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(2,358)	(410,779)
<b>Net other comprehensive loss for the year that may be reclassified to profit or loss in subsequent periods</b>	<b>(2,358)</b>	(410,779)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Net gain (loss) on equity instruments designated at fair value through other comprehensive income	175,418	(40,603)
<b>Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</b>	<b>175,418</b>	(40,603)
<b>Other comprehensive income (loss) for the year</b>	<b>173,060</b>	(451,382)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>14,976,970</b>	933,212
<b>Attributable to:</b>		
Equity holders of the Parent Company	12,989,094	908,282
Non-controlling interests	1,987,876	24,930
	<b>14,976,970</b>	933,212

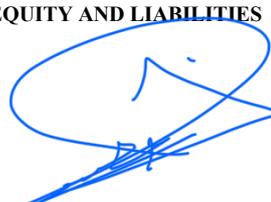
The attached notes 1 to 25 form part of these consolidated financial statements.

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 KD	2022 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Furniture and equipment		86,961	146,266
Right-of-use asset	10.1	44,071,154	44,593,736
Investment properties	10.2	12,106,400	14,698,037
Investment in associates	11	16,308,906	18,733,541
Investment securities	12	1,146,550	731,709
		<u>73,719,971</u>	<u>78,903,289</u>
<b>Current assets</b>			
Accounts receivable and prepayments	13	5,190,265	2,482,785
Trading properties		547,729	547,454
Inventories		388,069	455,559
Bank balances and cash		6,397,041	8,014,280
		<u>12,523,104</u>	<u>11,500,078</u>
<b>TOTAL ASSETS</b>		<u><b>86,243,075</b></u>	<u><b>90,403,367</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	32,200,000	32,200,000
Other reserve	14	(309,291)	(309,291)
Fair value reserve	14	(1,940,837)	(2,116,255)
Foreign currency translation reserve	14	(395,820)	(415,191)
Accumulated losses		(6,069,500)	(18,863,805)
<b>Equity attributable to equity holders of the Parent Company</b>		<u><b>23,484,552</b></u>	<u><b>10,495,458</b></u>
Non-controlling interests	15	(10,187,301)	(12,175,177)
<b>Total equity (deficit)</b>		<u><b>13,297,251</b></u>	<u><b>(1,679,719)</b></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		722,754	656,797
Islamic finance payables	16	32,721,040	37,456,979
Obligations under finance lease	17	13,074,934	13,497,386
Accounts payable and accruals	18	7,824,871	5,039,895
		<u>54,343,599</u>	<u>56,651,057</u>
<b>Current liabilities</b>			
Islamic finance payables	16	4,735,940	9,248,259
Obligations under finance lease	17	1,312,439	1,349,128
Accounts payable and accruals	18	12,553,846	24,834,642
		<u>18,602,225</u>	<u>35,432,029</u>
<b>Total liabilities</b>		<u><b>72,945,824</b></u>	<u><b>92,083,086</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>86,243,075</b></u>	<u><b>90,403,367</b></u>

  
 Nawaf Musaid Abdulaziz Al-Osaimi  
 Chairman

  
 Eisa Najib Abdulmohsen Al Eisa  
 Chief Executive Officer

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Equity attributable to shareholders of the Parent Company</i>					<i>Non-controlling interests</i> <i>KD</i>	<i>Total equity (deficit)</i> <i>KD</i>	
	<i>Share capital</i> <i>KD</i>	<i>Other reserve</i> <i>KD</i>	<i>Fair value reserve</i> <i>KD</i>	<i>Foreign currency translation reserve</i> <i>KD</i>	<i>Accumulated losses</i> <i>KD</i>			<i>Sub-total</i> <i>KD</i>
As at 1 January 2023	32,200,000	(309,291)	(2,116,255)	(415,191)	(18,863,805)	10,495,458	(12,175,177)	(1,679,719)
Profit for the year	-	-	-	-	12,794,305	12,794,305	2,009,605	14,803,910
Other comprehensive income (loss) for the year	-	-	175,418	19,371	-	194,789	(21,729)	173,060
Total comprehensive income for the year	-	-	175,418	19,371	12,794,305	12,989,094	1,987,876	14,976,970
<b>At 31 December 2023</b>	<b>32,200,000</b>	<b>(309,291)</b>	<b>(1,940,837)</b>	<b>(395,820)</b>	<b>(6,069,500)</b>	<b>23,484,552</b>	<b>(10,187,301)</b>	<b>13,297,251</b>
As at 1 January 2022	32,200,000	(309,291)	(2,075,652)	(158,049)	(20,069,832)	9,587,176	(12,200,107)	(2,612,931)
Profit for the year	-	-	-	-	1,206,027	1,206,027	178,567	1,384,594
Other comprehensive loss for the year	-	-	(40,603)	(257,142)	-	(297,745)	(153,637)	(451,382)
Total comprehensive (loss) income for the year	-	-	(40,603)	(257,142)	1,206,027	908,282	24,930	933,212
At 31 December 2022	32,200,000	(309,291)	(2,116,255)	(415,191)	(18,863,805)	10,495,458	(12,175,177)	(1,679,719)

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

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

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2023

	Notes	2023 KD	2022 KD
<b>OPERATING ACTIVITIES</b>			
Profit before tax and board of directors' remuneration		15,406,507	2,041,322
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation of right-of-use asset	10.1	2,787,446	2,754,678
Reversal of impairment on right-of-use asset	10.1	(1,961,692)	-
Net (gain) loss from fair value remeasurement of investment properties	10.2	(5,980,400)	335,600
Loss from disposal of investment property	10.2	772,037	-
Unrealized (gain) loss on financial assets at fair value through profit or loss		(239,424)	165,148
Realized gain on financial assets at fair value through profit or loss		-	(310,601)
Finance income		(16,630)	(17,095)
Share of results of associates	11	(2,638,685)	(765,577)
Depreciation of furniture and equipment		73,575	79,293
Gain from extinguishment of financial liabilities	18	(780,205)	(613,707)
(Reversal) write-down of trading properties		(275)	275
Finance costs on Islamic finance payable	16	2,182,012	1,639,968
Finance costs on lease obligations	17	872,975	872,088
Other finance costs	18	330,403	-
Write-down of inventories		67,490	66,761
Net foreign exchange differences		(35,681)	(169,677)
(Reversal) charge of provision for expected credit losses	13	(697,480)	1,462,005
Provision for employees' end of service benefits		132,078	149,067
		<b>10,274,051</b>	<b>7,689,548</b>
<i>Working capital changes:</i>			
Accounts receivable and prepayments		(2,010,000)	(2,443,592)
Accounts payable and accruals		(9,215,299)	2,737,771
<b>Cash flows (used in) from operations</b>		<b>(951,248)</b>	<b>7,983,727</b>
Employees' end of service benefits paid		(66,120)	(90,953)
Taxes paid		(462,865)	(163,426)
<b>Net cash flows (used in) from operating activities</b>		<b>(1,480,233)</b>	<b>7,729,348</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture and equipment		(18,418)	(47,713)
Additions to right-of-use asset	10	(268,080)	(36,451)
Proceeds from disposal of investment property	10.2	7,800,000	-
Proceeds from capital redemption of financial assets at fair value through profit or loss		-	817,491
Proceed from sale of furniture and equipment		-	45,667
Proceeds from capital redemption of an associate	11	5,025,800	-
Income received from saving accounts		16,630	17,095
<b>Net cash flows from investing activities</b>		<b>12,555,932</b>	<b>796,089</b>
<b>FINANCING ACTIVITIES</b>			
Net repayment of Islamic finance payables	16	(9,241,347)	(1,161,081)
Payment of obligations under finance lease	17	(1,353,483)	(1,369,529)
Finance costs paid	16	(2,097,519)	(1,588,664)
Dividends paid to equity holders of the Parent Company		(2,588)	(683)
<b>Net cash flows used in financing activities</b>		<b>(12,694,937)</b>	<b>(4,119,957)</b>
<b>(DECREASE) INCREASE IN BANK BALANCES AND CASH</b>		<b>(1,619,238)</b>	<b>4,405,480</b>
Bank balances and cash at 1 January		8,014,280	3,603,582
Net foreign exchange differences		1,999	5,218
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>		<b>6,397,041</b>	<b>8,014,280</b>
<b>NON-CASH ITEM:</b>			
Adjustment to right-of-use assets on lease remeasurement	10.1	-	(644,275)
Adjustment to lease liabilities on lease remeasurement	17	-	644,275

The attached notes 1 to 25 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 2023

### 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 2023 were authorised for issue in accordance with a resolution of board of directors on 7 March 2024. 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 18 May 2023 approved the consolidated financial statements for the year ended 31 December 2022. No dividends were declared by the shareholders at the AGM.

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

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

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

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

The Group carries out its activities in accordance with the principles of Islamic Shari‘a as approved by the Fatwa and Shari‘a Board appointed by the Parent Company.

#### 1.2 GROUP INFORMATION

##### a) Associates

Name	Country of incorporation	% equity interest		Principal activities
		2023	2022	
The Zamzam 2013 JV (“Zamzam”)	Kuwait	<b>36.69%</b>	36.69%	Real estate
Athman Al Khalijya Company W.L.L. (“Athman”)	Kuwait	<b>32.60%</b>	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 2023

### 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
		2023	2022	
<b>Directly held</b>				
Munshaat for Projects and Contracting Company Limited	KSA	99%	99%	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	Kuwait	62.81%	62.81%	Real estate
<b>Held by MAS International</b>				
MAS International Egypt W.L.L.	Egypt	100%	100%	Project management
MAS Al Oula W.L.L.	KSA	100%	100%	Project management
Al Zamzam International Company for Commercial Investment W.L.L.	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.

### 2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and investment securities that have been measured at fair value. The consolidated financial statements have been presented in Kuwaiti Dinars (“KD”) which is also the functional and presentation currency of the Parent Company.

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### 2.2.1 New standards, interpretations, and amendments adopted by the Group

Several amendments and interpretations apply for the first time in 2023, but do not have an impact on the consolidated financial statements of the Group.

##### *Definition of Accounting Estimates - Amendments to IAS 8*

In February 2022, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no material impact on the consolidated financial statements of the Group.

## 2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

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

#### *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the consolidated financial statements of the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the consolidated financial statements of the Group.

#### *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12*

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

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

#### *International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12*

The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the ECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation. The Group has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since it does not operate in any taxable jurisdictions. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the consolidated financial statements of the Group at 31 December 2023.

## 2.3 MATERIAL ACCOUNTING POLICIES

### 2.3.1 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

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.1 Basis of consolidation (continued)**

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.

**2.3.2 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

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

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

**2.3.3 Revenue recognition**

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

The Group's key sources of income include:

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

The accounting for each of these elements is discussed below.

*Hotel revenue*

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

*Rental income*

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

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in "Net gain from investment properties" in the consolidated 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.

**2.3.4 Capitalisation of borrowing costs**

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

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

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

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

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.5 Events after the reporting period**

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

**2.3.6 Foreign currencies**

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

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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.

**2.3.7 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 and transfer to statutory reserve until the reserve reaches 50% of share capital should be excluded from the profit base when determining the contribution. The contribution to KFAS is payable in full before the AGM is held in accordance with the Ministerial Resolution (184/2022).

**(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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.7 Taxation (continued)**

**(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 Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia ("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). The Group is also subject to the Egyptian Tax Authority ("ETA") for corporate income tax as per applicable Egyptian tax regulations.

*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 consolidated statement of financial position.

**2.3.8 Current versus non-current classification**

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

**2.3.9 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

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.9 Furniture and equipment (continued)**

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.

**2.3.10 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 (2.3.15) 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.10 Leases (continued)**

**ii) Lease liabilities (continued)**

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.

**2.3.11 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.12 Investment in associates**

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of results of operations of the associate. Any change in 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.

**2.3.13 Inventories**

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

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

**2.3.14 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.14 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets*

**Initial recognition and initial measurement**

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

**Subsequent measurement**

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

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.14 Financial instruments – initial recognition and subsequent measurement (continued)**

**i) Financial assets (continued)**

**Subsequent measurement (continued)**

**c) Financial assets at fair value through profit or loss**

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

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

**Derecognition**

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

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

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

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

**Impairment of financial assets**

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

- ▶ 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.14 Financial instruments – initial recognition and subsequent measurement (continued)**

*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.

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.

***Accounts payables***

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

**Derecognition**

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

***iii) Offsetting of financial instruments***

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

**2.3.15 Impairment of non-financial assets**

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

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.15 Impairment of non-financial assets (continued)**

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

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

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

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

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

**2.3.16 Bank balances and cash**

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

**2.3.17 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 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:

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.17 Fair value measurement (continued)**

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

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

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

Fair value of non-financial assets are based on valuation techniques determined by the independent valuers (Refer to Note 10.2 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.

**2.3.18 Employees' end of service benefits**

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

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

**2.3.19 Contingencies**

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

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

**2.3.20 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**2.3.21 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.

**2.3.22 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.

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

**2.3 MATERIAL ACCOUNTING POLICIES (continued)**

**2.3.23 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.

**3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards issued is those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

**Amendments to IFRS 16: Lease Liability in a Sale and Leaseback**

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification;

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

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

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

**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 or 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.

***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 consolidated 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.

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

**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.

***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 10.2.

***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 10.

# 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 2023

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

#### 4.2 Estimates and assumptions (continued)

##### *Taxes*

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

### 5 OPERATING REVENUE AND COST

	2023 KD	2022 KD
<b>Operating revenue</b>		
Hotel revenue	<b>17,806,110</b>	12,132,408
<b>Type of goods or service</b>		
Room revenue	<b>14,051,768</b>	9,078,313
Food and beverage	<b>3,661,447</b>	2,896,365
Other hotel revenues	<b>92,895</b>	157,730
<b>Total operating revenue</b>	<b>17,806,110</b>	12,132,408
<b>Timing of revenue recognition</b>		
Hotel revenue earned at a point in time	<b>17,806,110</b>	12,132,408
<b>Geographical markets</b>		
Kingdom of Saudi Arabia	<b>17,806,110</b>	12,132,408
<b>Operating costs</b>		
Hotel operating costs	<b>(8,603,340)</b>	(6,409,239)
Depreciation of right-of-use asset (Note 10)	<b>(2,787,446)</b>	(2,754,678)
	<b>(11,390,786)</b>	(9,163,917)

### 6 OTHER INCOME

	2023 KD	2022 KD
Other income	<b>6,988</b>	143,278
Rent compensation*	<b>191,256</b>	191,000
	<b>198,244</b>	334,278

\* Rent compensation represents amounts received by Safwa JV, a subsidiary of the Group, as part of rent compensation granted by the lessor, due to disruption to business and economic activities as a result of the COVID-19 pandemic for the period from 14 March 2020 to 5 March 2022, received for the hotel being leased by Safwa JV.

### 7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff costs of KD 1,027,280 (2022: KD 901,524).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 8 OVERSEAS ZAKAT

The movement in zakat provision is as follows:

	2023 KD	2022 KD
Balance at the beginning of the year (Note 18)	6,207,305	5,265,689
<i>Provision for:</i>		
Current year	477,993	523,716
Provision booked on behalf of related parties (Note 19)	217,727	553,824
Exchange differences	(9,805)	27,503
<i>Payments for:</i>		
Prior years	(293,734)	(163,427)
Balance at the end of the year (Note 18)	<u>6,599,486</u>	<u>6,207,305</u>

#### Status of assessments

The Group has filed its zakat returns till 2022. ZATCA has not yet finalized the review of the Group's zakat returns from 2018 to 2022.

### 9 EARNINGS PER SHARE

Basic earnings amounts are calculated by dividing the 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 earnings is calculated by dividing the 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.

	2023	2022
Profit for the year attributable to the equity holders of the Parent Company (KD)	12,794,305	1,206,027
Weighted average number of ordinary shares outstanding during the year (shares)	322,000,000	322,000,000
<b>Basic and diluted earnings per share (fils)</b>	<u>39.73</u>	<u>3.75</u>

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

### 10 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES

#### 10.1 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 1 October 2029 to 28 February 2030.

Upon adoption of IFRS 16 *Leases*, the prepaid operating lease related to Zamzam Tower was reclassified to right-of-use asset and any balance in the asset revaluation surplus in relation to the asset was transferred to accumulated losses in shareholders' equity.

# 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 2023

### 10 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

#### 10.1 Right-of-use asset (continued)

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

	2023 KD	2022 KD
<b>As at 1 January</b>	<b>44,593,736</b>	46,353,799
Depreciation of right-of-use asset (Note 5)	<b>(2,787,446)</b>	(2,754,678)
Reversal of impairment on right-of-use asset	<b>1,961,692</b>	-
Remeasurement	-	644,275
Additions	<b>268,080</b>	36,451
Exchange differences	<b>35,092</b>	313,889
<b>As at 31 December</b>	<b>44,071,154</b>	44,593,736

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 for Qebalah Tower was 17.92 years (2022: 18.92 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 the right-of-use asset 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'.

In the prior years, the Group recognized impairment losses on its right-of-use asset in accordance with IAS 36. The impairment losses were primarily driven by decline in market conditions and economic factors caused by COVID-19. Post the pandemic, the recovery has been swift and ever improving in the KSA hospitality industry, which has grown significantly on the back of various initiatives taken by the Saudi government, focusing on promoting tourism as a key driver of economic growth. Given the growth in the hospitality industry, the VIU determined for the right-of-use asset is higher than its carrying value. Consequently, a reversal for impairment on right-of-use asset has been recorded amounting to KD 1,961,692 in the consolidated statement of profit or loss which does not exceed the depreciated historical cost if the impairment had not been recognised.

#### 10.2 Investment properties

The movement in investment properties is as follows:

	2023 KD	2022 KD
<b>As at 1 January</b>	<b>14,698,037</b>	15,033,637
Net profit (loss) from fair value remeasurement	<b>5,980,400</b>	(335,600)
Sale during the year	<b>(8,572,037)</b>	-
<b>As at 31 December</b>	<b>12,106,400</b>	14,698,037

During the year, the Group sold a property with carrying value of KD 8,572,037 for cash consideration of KD 7,800,000. The realised loss of KD 772,037 is recognised in the consolidated statement of profit or loss and included in "Net gain from investment properties".

The fair value of properties located in KSA are determined using a discounted cash flow method ("DCF"). 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. Management updated certain assumptions to reflect the latest information and developments mainly based on renewed lease agreement for the investment property and the market conditions existing at the end of the reporting period resulting in a remeasurement gain of KD 5,980,400 (2022: Loss of KD 335,600). The valuation models applied are consistent with the principles in IFRS 13 'Fair Value Measurement'.

# 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 2023

### 10 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

#### 10.2 Investment properties (continued)

Investment properties with a carrying value of Nil (2022: KD 8,572,037) are pledged against Islamic finance payables (Note 16).

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.

	2023 KD	2022 KD
Net profit (loss) from fair value remeasurement	5,980,400	(335,600)
Net rental income derived from investment properties	782,008	1,274,643
Loss on disposal of investment property	(772,037)	-
<b>Net profit arising from investment properties carried at fair value</b>	<b>5,990,371</b>	<b>939,043</b>

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.

#### 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	
			2023	2022
<b>a. Right-of-use asset</b>				
Qeblah Tower – KSA				
• Hotel	DCF	▶ Estimated Average room rate in Saudi Riyals (SAR)	698 – 977	438 - 664
		▶ Occupancy rate	73%	64% - 76%
		▶ Discount rate	13%	10%
		▶ Inflation rate	2%	2.5%
		▶ Gross operating profit	40% - 52%	44% - 50%
<b>b. Investment properties</b>				
• Sharq land – State of Kuwait	Market comparison approach	▶ Price per square meter	-	KD 3,250
		• Shopping mall, KSA	DCF	▶ Estimated yearly rent in SAR per square metre
▶ Occupancy rate	100%	14% - 95%		
▶ Discount rate	10% - 12%	12%		

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, value in use 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.

# 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 2023

### 10 RIGHT-OF-USE ASSET AND INVESTMENT PROPERTIES (continued)

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.

#### 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:

- ▶ Occupancy rates
- ▶ Risk-adjusted discount rate
- ▶ Gross operating profit

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

- Occupancy rate - A decline in occupancy rates may lead to a decline in hospitality income. A decrease in occupancy rate of 5% would not result in any impairment on right-of-use asset.
- Discount rates - A rise in pre-tax discount rate by 2% to 5% would not result in any impairment on right-of-use asset.
- Gross operating profit - decreased demand can lead to a decline in the gross margin. A decrease in the gross margin by 5% would not result in any impairment on right-of-use asset.

#### 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 properties. Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the fair value of the investment property by the amounts shown below.

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

	<i>31 December 2023</i>		<i>31 December 2022</i>	
	<i>Increase KD</i>	<i>Decrease KD</i>	<i>Increase KD</i>	<i>Decrease KD</i>
Discount rate (2023: 2% movement; 2022: 2% movement)	<b>(1,390,600)</b>	<b>1,636,000</b>	(850,597)	1,064,267
Occupancy rate (2023: 5% movement; 2022: 5% movement)	-	-	545,844	(545,844)

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.

#### Fair value hierarchy:

The fair value measurement for Shopping Mall 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 had been categorised as Level 2 of the fair value hierarchy based on observable market sales data.

	<i>Total KD</i>	<b>Fair value measurement using</b>		
		<i>Quoted prices in active markets (Level 1) KD</i>	<i>Significant observable inputs (Level 2) KD</i>	<i>Significant unobservable inputs (Level 3) KD</i>
<b>31 December 2023</b>				
Investment properties	<b>12,106,400</b>	-	-	<b>12,106,400</b>
<b>31 December 2022</b>				
Investment properties	14,698,037	-	8,572,037	6,126,000

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
				<i>KD</i>	<i>KD</i>
The Zamzam 2013 JV (“Zamzam”)	Kuwait	<b>36.69%</b>	36.69%	<b>15,367,878</b>	17,984,346
Athman Al Khalijya Company W.L.L. (“Athman”)	Kuwait	<b>32.60%</b>	32.60%	<b>941,028</b>	749,195
				<b>16,308,906</b>	<b>18,733,541</b>

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

	<i>2023</i>	<i>2022</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	<b>18,733,541</b>	17,989,328
Share of profit	<b>2,638,685</b>	765,577
Capital redemption*	<b>(5,025,800)</b>	-
Exchange difference on translation of foreign operations	<b>(37,520)</b>	(21,364)
As at 31 December	<b>16,308,906</b>	<b>18,733,541</b>

\*During the current year, pursuant to the resolution of the advisory board on 11 December 2023, Zamzam authorized partial redemptions to the Venturers’ aggregating to KD 13,697,264 (2022: Nil) at 100 fils per unit. Out of KD 13,697,264, Parent’s Company share has been recognised amounting to KD 5,025,800 during the current year.

# 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 2023

### 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	
	2023 KD	2022 KD	2023 KD	2022 KD	2023 KD	2022 KD
Non-current assets	38,195,615	40,235,862	2,806,299	2,206,285	41,001,914	42,442,147
Current assets	17,209,574	19,726,132	81,598	93,405	17,291,172	19,819,537
Current liabilities	(13,521,738)	(10,947,647)	(1,000)	(1,300)	(13,522,738)	(10,948,947)
<b>Equity</b>	<b>41,883,451</b>	<b>49,014,347</b>	<b>2,886,897</b>	<b>2,298,390</b>	<b>44,770,348</b>	<b>51,312,737</b>
Group's share in equity %	36.69%	36.69%	32.60%	32.60%		
<b>Group's carrying amount of the investment</b>	<b>15,367,878</b>	<b>17,984,346</b>	<b>941,028</b>	<b>749,195</b>	<b>16,308,906</b>	<b>18,733,541</b>
Revenues	24,298,866	19,773,885	-	-	24,298,866	19,773,885
Cost of revenue / loss	(10,909,600)	(9,874,096)	-	-	(10,909,600)	(9,874,096)
Share of results of associates	-	-	600,013	(953,019)	600,013	(953,019)
Amortization and impairment	(5,993,691)	(5,981,623)	-	-	(5,993,691)	(5,981,623)
General and administrative expenses, management fee and charge of taxes	(716,216)	(974,095)	(11,505)	(300)	(727,721)	(974,395)
<b>Profit (loss) for the year</b>	<b>6,679,359</b>	<b>2,944,071</b>	<b>588,508</b>	<b>(953,319)</b>	<b>7,267,867</b>	<b>1,990,752</b>
<b>Group's share of profit (loss) for the year</b>	<b>2,446,853</b>	<b>1,077,249</b>	<b>191,832</b>	<b>(311,672)</b>	<b>2,638,685</b>	<b>765,577</b>

#### Impairment of associates

The above associates are unquoted and there is no quoted market prices available for its shares. The management has carried out the impairment assessment of Group's investment in associates to identify any indicators of impairment. The management has considered factors such as changes in the investee's financial condition, any significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business. Reviews for indicators of impairment and any resulting tests for impairment of the investment in associates have been performed as at the annual reporting date, 31 December 2023. Based on management's assessment, no impairment indicators were noted.

# 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 2023

### 12 INVESTMENT SECURITIES

	2023 KD	2022 KD
Financial assets at fair value through profit or loss (FVPL)	<b>641,325</b>	401,901
Financial assets at fair value through other comprehensive income (FVOCI)	<b>505,225</b>	329,808
Total investment securities	<b>1,146,550</b>	731,709

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

	2023 KD	2022 KD
Tenant receivables	<b>6,180,308</b>	11,982,959
Amounts due from related parties (Note 19)	<b>4,817,761</b>	1,647,478
Prepaid expenses	<b>17,460</b>	14,569
Other receivables	<b>421,574</b>	466,729
Less: Allowance for expected credit losses	<b>(6,246,838)</b>	(11,628,950)
	<b>5,190,265</b>	2,482,785

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:

	2023 KD	2022 KD
<b>Opening loss allowance at 1 January</b>	<b>11,628,950</b>	10,114,754
(Reversal) charge of allowance recognised in profit or loss during the year	<b>(697,480)</b>	1,462,005
Written off*	<b>(4,692,723)</b>	-
Exchange difference on translation of foreign operations	<b>8,091</b>	52,191
<b>Closing loss allowance at 31 December</b>	<b>6,246,838</b>	11,628,950

\* The Group has reached a settlement with the former lessee of the 6 floors of Al Safwa Towers to settle the amount of SAR 12,444,443 (equivalent to KD 1,022,116) to be paid in instalments over two years, with a final settlement to be made on 23 February 2025. Accordingly, any excess receivables above the agreed-on settlement amount have been written off. Given the history of default from the former lessee, the management will only reverse related provisions once actual collections are 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 2023

### 14 EQUITY

#### 14.1 Share capital

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	<b>322,000,000</b>	322,000,000	<b>32,200,000</b>	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.

#### 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.

No transfers have been made as previously accumulated losses have not been recovered.

#### 14.4 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, refer to Note 21.

#### 14.5 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.

#### 14.6 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2023

### 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	
		2023	2022
Al Safwa Joint Venture ("Safwa JV")	Kuwait	60.10%	60.10%
Al Qebalah JV ("Qebalah JV")	Kuwait	37.19%	37.19%
		2023	2022
		KD	KD
<b>Accumulated balance of material non-controlling interest:</b>			
Al Safwa Joint Venture ("Safwa JV")		679,716	191,003
Al Qebalah JV ("Qebalah JV")		(10,867,017)	(12,366,180)
		<u>(10,187,301)</u>	<u>(12,175,177)</u>
<b>Profit (loss) allocated to material non-controlling interest:</b>			
Al Safwa Joint Venture ("Safwa JV")		489,368	(160,881)
Al Qebalah JV ("Qebalah JV")		1,520,237	339,448
		<u>2,009,605</u>	<u>178,567</u>

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	
	2023	2022	2023	2022
	KD	KD	KD	KD
Revenue	9,768,757	6,199,730	-	1,088,526
Cost of revenue	(5,609,462)	(4,422,443)	-	(54,426)
Other income	67,703	584,833	422,592	189,004
Gain from extinguishment of financial liability	498,744	309,996	-	-
Reversal of impairment on right-of-use asset	1,961,692	-	-	-
Reversal (charge) of provision for expected credit loss	-	47,235	435,007	(1,254,928)
Tax expense charge	(103,406)	-	(20,878)	(211,131)
Finance costs	(2,456,708)	(1,760,191)	-	-
Administrative expenses	(39,562)	(46,420)	(22,457)	(24,737)
<b>Profit (loss) for the year</b>	<u>4,087,758</u>	<u>912,740</u>	<u>814,264</u>	<u>(267,692)</u>
<b>Total comprehensive profit (loss)</b>	<u>4,087,758</u>	<u>912,740</u>	<u>814,264</u>	<u>(267,692)</u>
Attributable to non-controlling interests	<u>1,520,237</u>	<u>339,448</u>	<u>489,368</u>	<u>(160,881)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of financial position:

	Qeblah JV		Safwa JV	
	2023 KD	2022 KD	2023 KD	2022 KD
Right-of-use asset	24,771,272	24,290,114	-	-
Accounts receivables	41	41	31	-
Other current assets	2,678	3,604	1,358,467	503,773
<b>Total assets</b>	<b>24,773,991</b>	<b>24,293,759</b>	<b>1,358,498</b>	<b>503,773</b>
Accounts payable	53,994,257	57,545,116	227,512	185,961
<b>Total liabilities</b>	<b>53,994,257</b>	<b>57,545,116</b>	<b>227,512</b>	<b>185,961</b>
<b>Total (deficit) equity</b>	<b>(29,220,266)</b>	<b>(33,251,357)</b>	<b>1,130,986</b>	<b>317,812</b>
<b>Attributable to:</b>				
Equity holders of Parent Company	(18,353,249)	(20,885,177)	451,270	126,809
Non-controlling interests	(10,867,017)	(12,366,180)	679,716	191,003
	<b>(29,220,266)</b>	<b>(33,251,357)</b>	<b>1,130,986</b>	<b>317,812</b>

Summarised cash flow information for the year ended 31 December:

	Qeblah JV		Safwa JV	
	2023 KD	2022 KD	2023 KD	2022 KD
Operating activities	(1,780,547)	48,950	3,072,687	(988,129)
Investing activities	(511,116)	(81,393)	-	-
Financing activities	2,288,627	-	-	-
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,036)</b>	<b>(32,443)</b>	<b>3,072,687</b>	<b>(988,129)</b>

16 ISLAMIC FINANCE PAYABLES

	2023 KD	2022 KD
<b>Current</b>		
Murabaha payable	-	4,519,725
Tawarruq payable*	4,735,940	4,735,940
Less: deferred finance costs	-	(7,406)
	<b>4,735,940</b>	<b>9,248,259</b>
<b>Non-current</b>		
Tawarruq payable*	32,721,040	37,456,979
	<b>37,456,980</b>	<b>46,705,238</b>

# 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 2023

### 16 ISLAMIC FINANCE PAYABLES (continued)

\* The Group obtained a non-revolving tawarruq facility of KD 43.5 million from a local financial institution. The facility is denominated in Kuwaiti Dinar and has been rescheduled in the prior year, with principal repayments being partially rescheduled and resulting in a reduction in current liabilities. The facility is repayable over a period of 10 years in annual instalments starting from 1 December 2022 and maturing on 1 December 2031. Islamic finance payables bear a profit rate of 1.5% above the annual discount rate announced by the Central Bank of Kuwait (CBDR) (2022: 1.5% over the CBDR).

Islamic finance payables bear an average finance cost of 4.67% (2022: 4.13%) per annum and are denominated in Kuwaiti Dinar.

Murabaha payables have been settled during the year and pledged over investment property previously collateralised have been released. The tawarruq facility is secured over certain of the Group's investment in subsidiaries.

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.

	2023 KD	2022 KD
<b>As at 1 January</b>	<b>46,705,238</b>	47,866,319
<i>Cash flows:</i>		
Repayments of borrowings	<b>(9,241,347)</b>	(1,161,081)
Payment of finance costs	<b>(2,097,519)</b>	(1,588,664)
<i>Non-cash movements:</i>		
Finance costs*	<b>2,090,608</b>	1,588,664
<b>As at 31 December</b>	<b>37,456,980</b>	46,705,238

\* As at 31 December 2023, the Group had KD 91,404 (2022: KD 51,304) of unpaid finance cost, classified under accrued expenses.

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

### 17 OBLIGATIONS UNDER FINANCE LEASE

	2023 KD	2022 KD
Lease obligations	<b>14,387,373</b>	14,846,514
Less: current portion	<b>(1,312,439)</b>	(1,349,128)
Long-term obligations under finance lease	<b>13,074,934</b>	13,497,386

# 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 2023

### 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:

	2023 KD	2022 KD
2023	-	1,349,128
2024	1,312,439	1,310,575
2025	1,308,800	1,306,880
2026	1,308,800	1,306,880
Thereafter	19,844,567	19,603,200
Total minimum lease payments	<u>23,774,606</u>	<u>24,876,663</u>
Less: future finance charges	<u>(9,387,233)</u>	<u>(10,030,149)</u>
Present value of minimum finance lease rental payments	14,387,373	14,846,514
Current portion of lease obligations	<u>(1,312,439)</u>	<u>(1,349,128)</u>
Non-current obligations under finance lease	<u><u>13,074,934</u></u>	<u><u>13,497,386</u></u>

Changes in obligations under finance lease is as follows:

	2023 KD	2022 KD
As at 1 January	14,846,514	14,528,604
Remeasurement	-	644,275
Finance cost	872,975	872,088
Repayments	(1,353,483)	(1,369,529)
Net foreign exchange difference	21,367	171,076
As at 31 December	<u><u>14,387,373</u></u>	<u><u>14,846,514</u></u>

### 18 ACCOUNTS PAYABLE AND ACCRUALS

	2023 KD	2022 KD
Amounts due to related parties (Note 19)	1,250,913	4,208,697
Accrued expenses	884,090	735,809
Advances from customers	1,545,793	1,016,861
Legal claim provision *	6,049,833	12,617,771
Zakat provision (Note 8)	6,599,486	6,207,305
Other payables	4,048,602	5,088,094
	<u>20,378,717</u>	<u>29,874,537</u>
Less: Current portion of accounts payable and accruals	<u>(12,553,846)</u>	<u>(24,834,642)</u>
Non-current portion of accounts payable and accruals	<u><u>7,824,871</u></u>	<u><u>5,039,895</u></u>

As at and for the year ended 31 December 2023

**18 ACCOUNTS PAYABLE AND ACCRUALS (continued)**

\* In prior years, the Group recorded provision for litigation to settle the claim brought against the Group by the contractor of Qebalah Tower. On 9 June 2021, the Saudi Arbitration Committee (“SAC”) issued a final verdict and ruled in favour of the claimant for which the Group was liable to pay a total amount of SAR 155 million (equivalent to KD 12.6 million) pertaining to final payment, retention payments, the compensation for delay in the execution of project, and other project related costs. Based on the advice and updates from the legal counsel, the Group had recorded a provision for the full amount to settle the claim.

On 27 September 2022, the Court of Appeal upheld the SAC final verdict issued on 9 June 2021. Furthermore, the Court of Appeal obliged the Group to pay a total amount of SAR 154 million (equivalent to KD 12.6 million). During 2022, the Group had reduced its liability to SAR 154 million (equivalent to KD 12.6 million).

During the current year, the Group has reached a settlement with the contractor to settle the amount of SAR 154 million (equivalent to KD 12.6 million) to be paid in instalments over three years, with a final settlement to be made on 31 October 2025. Accordingly, the Group has discounted its total liabilities of SAR 154 million (equivalent to KD 12.6 million) and recorded a gain of KD 780,205, which is the difference between gross payable and present value of settlement amount considering a discount rate of 6% as is presented under ‘gain from extinguishment of financial liabilities’ in the consolidated statement of profit or loss.

The Group has recognised finance cost amounting to KD 330,403 in the consolidated statement of profit or loss for the year ended 31 December 2023 (2022: Nil) which represents unwinding of the above settlement amount payable to the contractor.

# 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 2023

### 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 KD</i>	<i>Associates KD</i>	<i>Others KD</i>	<i>Total 2023 KD</i>	<i>Total 2022 KD</i>
<b>Consolidated statement of profit or loss</b>					
Management fees income	-	324,950	221,212	<b>546,162</b>	464,257
Finance income	829	-	-	<b>829</b>	676
Finance costs	(1,916,748)	-	-	<b>(1,916,748)</b>	(1,450,559)
Hotel management fees	-	-	(1,010,095)	<b>(1,010,095)</b>	(552,878)

	<i>Major shareholder of the Ultimate Parent Company KD</i>	<i>Ultimate Parent company KD</i>	<i>Major shareholders KD</i>	<i>Associates KD</i>	<i>Others KD</i>	<i>Total 2023 KD</i>	<i>Total 2022 KD</i>
<b>Consolidated statement of financial position</b>							
Financial asset at fair value through profit or loss	-	-	-	-	607,990	<b>607,990</b>	366,067
Financial asset at fair value through other comprehensive income	-	-	270,301	-	234,924	<b>505,225</b>	329,808
Bank balances and cash	2,138,043	-	-	-	-	<b>2,138,043</b>	2,200,311
Accounts receivable and prepayments*	-	-	-	-	4,757,654	<b>4,757,654</b>	1,589,524
Accounts payable and accruals (Note 18)	-	-	728,583	513,361	8,969	<b>1,250,913</b>	4,208,697
Islamic finance payables (Note 16)	37,456,980	-	-	-	-	<b>37,456,980</b>	42,192,919

\*Represents balances net of provision for expected credit losses.

During the year, the Group has booked zakat provision on behalf of entities under common control amounting to KD 217,727 (2022: KD 553,824) (Note 8).

# 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 2023

### 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 2023, the Group has recognised provision for expected credit losses relating to amounts owed by related parties amounting to KD 60,107 (2022: KD 57,954). 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>	
	<b>2023</b>	2022	<b>2023</b>	2022
	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
Salaries and short-term benefits	<b>68,880</b>	69,951	<b>317,244</b>	217,133
Post-employment benefits	<b>354,683</b>	216,516	<b>73,386</b>	36,589
	<b>423,563</b>	286,467	<b>390,630</b>	253,722

The Board of Directors at the meeting held on 7 March 2024 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2023. This proposal is subject to the shareholders' approval at the AGM.

# 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 2023

### 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 2023</i>			
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Other KD</i>	<i>Total KD</i>
<b>Revenue</b>	<b>518,415</b>	<b>19,462,744</b>	<b>16</b>	<b>19,981,175</b>
<b>Segment results</b>	<b>(1,780,501)</b>	<b>16,643,379</b>	<b>(58,968)</b>	<b>14,803,910</b>
<i>Other disclosures</i>				
Depreciation and amortisation	(61,290)	(2,795,393)	(4,338)	(2,861,021)
Net reversal of provision for expected credit losses	(2,067)	699,714	(167)	697,480
Reversal of impairment on right of use asset	-	1,961,692	-	1,961,692
<b>Total assets</b>	<b>6,901,988</b>	<b>78,244,761</b>	<b>1,096,326</b>	<b>86,243,075</b>
<b>Total liabilities</b>	<b>8,461,571</b>	<b>64,442,189</b>	<b>42,064</b>	<b>72,945,824</b>
	<i>Year ended 31 December 2022</i>			
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Other KD</i>	<i>Total KD</i>
Revenue	978,502	14,186,652	55,685	15,220,839
Segment results	(587,376)	1,969,090	2,880	1,384,594
<i>Other disclosures</i>				
Depreciation and amortisation	(59,406)	(2,769,355)	(5,210)	(2,833,971)
Net charge of provision for expected credit losses	(58,649)	(1,403,356)	-	(1,462,005)
Total assets	18,660,556	71,133,941	608,870	90,403,367
Total liabilities	14,173,138	77,862,230	47,718	92,083,086

### 21 COMMITMENTS AND CONTINGENCIES

#### *Legal claim contingency*

During the year ended 31 December 2019, one of the Joint Venturer of a subsidiary "Al Qebalah JV" filed a case against the Parent Company in its capacity as Joint Venture Manager for Al Qebalah JV for recovery of the initial investment in the Joint Venture and compensation. During the year ended 31 December 2019, 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)

# 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 2023

### 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 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:

	<i>2023</i>	<i>2022</i>
	<i>KD</i>	<i>KD</i>
Accounts receivable, net	<b>9,477</b>	431,752
Amounts due from related parties, net	<b>4,757,654</b>	1,589,524
Other receivables (excluding advances to contractor and prepaid expenses)	<b>405,674</b>	446,940
Bank balances	<b>6,397,041</b>	8,014,280
	<b>11,569,846</b>	10,482,496

#### *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.

# 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 2023

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

#### 22.1 Credit risk (continued)

##### *Other receivables and amounts due from related 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>
<b><i>At 31 December 2023</i></b>				
Accounts receivable	369,130	4,789,828	13,847	5,172,805
Bank balances	5,202,103	572,204	622,734	6,397,041
	<u>5,571,233</u>	<u>5,362,032</u>	<u>636,581</u>	<u>11,569,846</u>
<b><i>At 31 December 2022</i></b>				
Accounts receivable	1,793,217	637,926	37,073	2,468,216
Bank balances	7,433,116	572,662	8,502	8,014,280
	<u>9,226,333</u>	<u>1,210,588</u>	<u>45,575</u>	<u>10,482,496</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>Neither past due nor impaired KD</i>	<i>Past due and impaired KD</i>	<i>Total KD</i>
<b><i>31 December 2023</i></b>			
Estimated total gross carrying amount at default	9,477	6,170,831	6,180,308
Estimated credit loss	-	6,170,831	6,170,831
Expected credit loss rate	-	100%	99.8%
<b><i>31 December 2022</i></b>			
Estimated total gross carrying amount at default	431,752	11,551,207	11,982,959
Estimated credit loss	-	11,551,207	11,551,207
Expected credit loss rate	0%	100%	96%

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.

# 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 2023

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

#### 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 20% of the Group's debt will mature in less than one year at 31 December 2023 (2022: 20%) 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:

	<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>
<b>Year ended 31 December 2023</b>					
Obligations under finance lease	-	3,681	1,308,758	22,462,167	23,774,606
Islamic finance payables	-	-	6,901,518	40,213,441	47,114,959
Accounts payable and accruals*	1,295,408	4,574,388	2,178,505	3,301,047	11,349,348
	<u>1,295,408</u>	<u>4,578,069</u>	<u>10,388,781</u>	<u>65,976,655</u>	<u>82,238,913</u>
	<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>
<b>Year ended 31 December 2022</b>					
Obligations under finance lease	9,000	9,000	1,331,128	23,527,535	24,876,663
Islamic finance payables	4,519,725	-	6,838,290	44,278,147	55,636,162
Accounts payable and accruals*	890,640	14,179,434	2,618,538	4,225,950	21,914,562
	<u>5,419,365</u>	<u>14,188,434</u>	<u>10,787,956</u>	<u>72,031,632</u>	<u>102,427,387</u>

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

#### 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.

# 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 2023

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

#### 22.3 Market risk (continued)

##### 22.3.1 Profit rate risk (continued)

###### *Exposure to profit rate risk*

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

	2023 KD	2022 KD
<b>Fixed-rate instruments</b>		
Financial liabilities	<u>14,387,373</u>	<u>14,846,514</u>
<b>Variable-rate instruments</b>		
Financial asset	-	-
Financial liabilities	<u>37,456,980</u>	<u>46,705,238</u>
	<u>37,456,980</u>	<u>46,705,238</u>

###### *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 374,570 (2022: KD 467,052). 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 profit 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.

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

	2023 KD	2022 KD
SAR	11,605,562	17,866,441
USD	291,969	269,793

# 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 2023

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

#### 22.3 Market risk (continued)

##### 22.3.2 Foreign currency risk (continued)

###### *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	
		2023 KD	2022 KD	2023 KD	2022 KD
SAR	+5%	-	-	580,278	893,322
USD	+5%	11,746	10,676	2,852	2,814

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 876,249 (2022: KD 615,411). 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 13,515 (2022: KD 5,815) 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.

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.

# 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 2023

### 23 FAIR VALUE MEASUREMENT (continued)

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>2023</i>	<i>2022</i>
	<i>KD</i>	<i>KD</i>
<b><i>Financial instruments</i></b>		
Quoted equity securities	<b>270,301</b>	116,298
Unquoted equity securities	<b>876,249</b>	615,411
<b>Investment securities (at fair value)</b>	<b>1,146,550</b>	731,709
	<i>2023</i>	<i>2022</i>
	<i>KD</i>	<i>KD</i>
<b><i>Non-financial assets</i></b>		
Investment properties	<b>12,106,400</b>	14,698,037

#### **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.

**23 FAIR VALUE MEASUREMENT (continued)**

**Valuation methods and assumptions (continued)**

*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 year.

*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 categorised under level 2 and level 3 of the fair value hierarchy.

*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.

**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:

	<i>Total</i>	<b>Fair value measurement using</b>		
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<b>31 December 2023</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
Financial assets at FVPL	641,325	-	-	641,325
Financial assets at FVOCI	505,225	270,301	-	234,924
	<b>1,146,550</b>	<b>270,301</b>	<b>-</b>	<b>876,249</b>

# 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 2023

### 23 FAIR VALUE MEASUREMENT (continued)

#### 23.1 Financial instruments (continued)

##### *Fair value hierarchy (continued)*

	Fair value measurement using			
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<i>31 December 2022</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at FVPL	401,901	-	-	401,901
Financial assets at FVOCI	329,808	116,298	-	213,510
	<u>731,709</u>	<u>116,298</u>	<u>-</u>	<u>615,411</u>

There were no transfers between any levels of the fair value hierarchy during 2023 or 2022.

#### Reconciliation of Level 3 fair values

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

	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
<b>2023</b>			
<b>As at 1 January 2023</b>	<b>213,510</b>	<b>401,901</b>	<b>615,411</b>
Remeasurement recognised in OCI	21,414	-	21,414
Remeasurement recognised in profit or loss	-	239,424	239,424
<b>As at 31 December 2023</b>	<b>234,924</b>	<b>641,325</b>	<b>876,249</b>
	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
<b>2022</b>			
As at 1 January 2022	203,132	1,073,939	1,277,071
Remeasurement recognised in OCI	10,378	-	10,378
Remeasurement recognised in profit or loss	-	(165,148)	(165,148)
Purchases / sales / Redemption (net)	-	(506,890)	(506,890)
<b>As at 31 December 2022</b>	<b>213,510</b>	<b>401,901</b>	<b>615,411</b>

#### *Sensitivity analysis*

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

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

# 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 2023

### 23 FAIR VALUE MEASUREMENT (continued)

#### 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 2023 and 2022 are disclosed in Note 10.

The reconciliation of the opening and closing balances of the fair value hierarchy is disclosed in Note 10 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.

	2023 <i>KD</i>	2022 <i>KD</i>
Islamic finance payables	37,456,980	46,705,238
Obligations under finance leases	14,387,373	14,846,514
Accounts payable and accruals	20,378,717	29,874,537
Less: Bank balance and cash	<u>(6,397,041)</u>	<u>(8,014,280)</u>
<b>Net debt</b>	<b>65,826,029</b>	83,412,009
<b>Equity attributable to equity holders of the Parent Company</b>	<b>23,484,552</b>	10,495,458
<b>Capital and debt</b>	<b>89,310,581</b>	93,907,467
Gearing ratio	<b>74%</b>	89%

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.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 2022.

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As at and for the year ended 31 December 2023

**25 PROPOSED DIVIDENDS**

The Board of Directors in their meeting held on 7 March 2024 proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2023. 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 18 May 2023 resolved not to distribute cash dividends for the year ended 31 December 2022.

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