# ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND ITS SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2018

EY
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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

## Report on the Audit of Consolidated Financial Statements

*Qualified Opinion*

We have audited the consolidated financial statements of Abyaar Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, 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 a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Qualified Opinion*

a) Certain properties under development and investment properties of the Group are carried in the consolidated statement of financial position at KD 22,874,040 and 11,577,901 respectively. The Group has not stated these properties at net realizable value, in light of the event disclosed in Note 23(a) to the consolidated financial statements, which constitute a departure from IFRSs. Had those properties been recorded at net realizable value, an amount of KD 22,751,941 would have been required to write these properties down to their net realizable value or fair value. Accordingly, properties under development and investment properties would have been decreased by KD 22,751,941 and net loss and accumulated losses would have increased by KD 22,751,941.

b) Certain other property under development of the Group as disclosed in Note 23 (b) to the consolidated financial statements is carried at KD 35,534,271. We were not able to obtain sufficient appropriate audit evidence about the net realizable value of this property because the net realizable value at which certain units of the property would be exchange with a lender to settle the remaining Islamic finance payables has not been determined. Consequently, were not able to determine whether any adjustment to this amount was necessary.

c) Certain other property under development of the Group is carried at KD 46,697,256. We were not able to obtain sufficient appropriate audit evidence about the net realizable value of these properties as the Parent Company still did not finalise a plan as to whether these properties could be subject to in-kind settlement with other lenders or developed for future sale in the ordinary course of business. Consequently, we were not able to determine whether any adjustment to this amount was necessary.

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

*Basis for Qualified Opinion (continued)*
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. Except for the matters described in the Basis for qualified opinion section, we have determined that there are no other key audit matters to communicate in our report.

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

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

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

*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.



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

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

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)*
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

## Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit, except for the matters described in the Basis for Qualified Opinion section of our report, 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 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

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

28 March 2019
Kuwait



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# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

| | *Notes* | ***2018*** ***KD*** | *2017* *KD* |
|---|---|---|---|
| Write back of liabilities no longer required | 4 | - | 965,446 |
| Other income | | - | 430 |
| Dividend income | | **276,611** | - |
| Foreign exchange gain (loss) | | **101,550** | (436,307) |
| Staff costs | | **(455,840)** | (604,130) |
| General and administration expenses | | **(231,717)** | (562,768) |
| Islamic finance costs | | **(218,743)** | (1,531,015) |
| Unrealised loss on revaluation of investment property | 6 | - | (1,625,000) |
| Expected credit loss on Ijarah receivables | 9 | **(1,158,742)** | - |
| Impairment loss on investment in associate | 7 | - | (200,000) |
| **LOSS FOR THE YEAR** | | **(1,686,881)** | (3,993,344) |
| **BASIC AND DILUTED LOSS PER SHARE** | 3 | **(1.53) fils** | (3.63) fils |

The attached notes 1 to 23 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

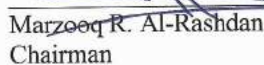
| | *2018* | *2017* |
|---|---|---|
| | *KD* | *KD* |
| **Loss for the year** | **(1,686,881)** | (3,993,344) |
| **Other comprehensive income (loss)** | | |
| *Items of other comprehensive income (loss) that are or may be reclassified to the consolidated statement of income in the subsequent period:* | | |
| Foreign currency translation adjustment | **460,753** | (1,273,254) |
| **Other comprehensive income (loss) for the year** | **460,753** | (1,273,254) |
| **Total comprehensive loss for the year** | **(1,226,128)** | (5,266,598) |

The attached notes 1 to 23 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

| | Notes | 2018 KD | 2017 KD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | | **3,210** | 24,171 |
| Properties under development | 5 | **106,355,625** | 105,459,497 |
| Investment properties | 6 | **28,891,776** | 28,726,697 |
| Investment in associates | 7 | **4,909,674** | 4,967,669 |
| Investment securities | 8 | **-** | 2,590,908 |
| Financial assets at fair value through other comprehensive income | 8 | **2,558,934** | - |
| Ijarah receivables | 9 | **27,933,456** | 27,793,134 |
| | | **170,652,675** | 169,562,076 |
| **Current assets** | | | |
| Ijarah receivables | 9 | **-** | 1,145,922 |
| Accounts receivable and prepayments | 10 | **8,206,637** | 9,072,811 |
| Bank balances and cash | 11 | **807,094** | 654,734 |
| | | **9,013,731** | 10,873,467 |
| **TOTAL ASSETS** | | **179,666,406** | 180,435,543 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | **110,727,500** | 110,727,500 |
| Statutory reserve | 13 | **1,473,038** | 1,473,038 |
| Voluntary reserve | 13 | **2,288** | 2,288 |
| Treasury shares | 14 | **(1,473,038)** | (1,473,038) |
| Foreign currency translation reserve | | **6,446,086** | 5,985,333 |
| Accumulated losses | | **(32,084,042)** | (30,397,161) |
| **Total equity** | | **85,091,832** | 86,317,960 |
| **Non-current liabilities** | | | |
| Islamic financing payables | 15 | **20,880,696** | 22,744,624 |
| Accounts payable and accruals | 16 | **44,970,456** | 44,030,906 |
| Employees' end of service benefits | | **475,178** | 430,096 |
| | | **66,326,330** | 67,205,626 |
| **Current liabilities** | | | |
| Islamic financing payables | 15 | **21,000,463** | 19,717,408 |
| Accounts payable and accruals | 16 | **7,247,781** | 7,194,549 |
| | | **28,248,244** | 26,911,957 |
| **Total liabilities** | | **94,574,574** | 94,117,583 |
| **TOTAL EQUITY AND LIABILITIES** | | **179,666,406** | 180,435,543 |



Marzooq R. Al-Rashdan
Chairman

The attached notes 1 to 23 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and its Subsidiary

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | *Share capital KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares KD* | *Foreign currency translation reserve KD* | *Accumulated losses KD* | *Total KD* |
|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | **110,727,500** | **1,473,038** | **2,288** | **(1,473,038)** | **5,985,333** | **(30,397,161)** | **86,317,960** |
| Loss for the year | **-** | **-** | **-** | **-** | **-** | **(1,686,881)** | **(1,686,881)** |
| Other comprehensive income for the year | **-** | **-** | **-** | **-** | **460,753** | **-** | **460,753** |
| Total comprehensive income (loss) for the year | **-** | **-** | **-** | **-** | **460,753** | **(1,686,881)** | **(1,226,128)** |
| **As at 31 December 2018** | **110,727,500** | **1,473,038** | **2,288** | **(1,473,038)** | **6,446,086** | **(32,084,042)** | **85,091,832** |
| As at 1 January 2017 | 110,727,500 | 1,473,038 | 2,288 | (1,473,038) | 7,258,587 | (26,403,817) | 91,584,558 |
| Loss for the year | - | - | - | - | - | (3,993,344) | (3,993,344) |
| Other comprehensive loss for the year | - | - | - | - | (1,273,254) | - | (1,273,254) |
| Total comprehensive (loss) for the year | - | - | - | - | (1,273,254) | (3,993,344) | (5,266,598) |
| As at 31 December 2017 | 110,727,500 | 1,473,038 | 2,288 | (1,473,038) | 5,985,333 | (30,397,161) | 86,317,960 |

The attached notes 1 to 23 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | *2018* *KD* | *2017* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year | | **(1,686,881)** | (3,993,344) |
| Adjustments for: | | | |
| Write back of liabilities no longer required | 4 | **-** | (965,446) |
| Foreign exchange (gain) loss | | **(101,550)** | 436,307 |
| Provision for employees' end of services benefits | | **48,633** | 107,013 |
| Depreciation | | **20,961** | 20,027 |
| Islamic finance costs | | **218,743** | 1,531,015 |
| Unrealised loss on revaluation of investment property | 6 | **-** | 1,625,000 |
| Impairment loss on investment in associate | 7 | **-** | 200,000 |
| Expected credit loss on Ijarah receivables | 9 | **1,158,742** | - |
| | | **(341,352)** | (1,039,428) |
| Changes in working capital: | | | |
| Accounts receivable and prepayments | | **866,174** | 1,079,447 |
| Accounts payable and accruals | | **898,270** | 537,367 |
| Cash flows from operations | | **1,423,092** | 577,386 |
| Employees' end of service benefits paid | | **(3,551)** | (40,282) |
| Net cash flows from operating activities | | **1,419,541** | 537,104 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from partial redemption and disposal of associates | | **57,995** | 145,431 |
| Additions to properties under development | 5 | **(358,195)** | (1,385,777) |
| Payable to contractors and consultants | | **(137,041)** | (238,925) |
| Deposits in restricted bank balances | | **(995,341)** | (1,068,613) |
| Withdrawals from restricted bank balances | | **846,996** | 1,203,470 |
| Net movement in financial assets available for sale | | **-** | 31,410 |
| Net cash flows used in investing activities | | **(585,586)** | (1,313,004) |
| **FINANCING ACTIVITY** | | | |
| Net movement in Islamic financing payables | | **(833,763)** | 775,746 |
| Cash flows (used in) from financing activity | | **(833,763)** | 775,746 |
| **INCREASE (DECREASE) IN BANK BALANCES AND CASH** | | **192** | (154) |
| Bank balances and cash as at 1 January | | **31** | 185 |
| **BANK BALANCES AND CASH AS AT 31 DECEMBER** | 11 | **223** | 31 |

The attached notes 1 to 23 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of Abyaar Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiary (the "Group") for the year ended 31 December 2018 were authorised for issuance by the Parent Company's board of directors on 28 March 2019. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

The registered office of the Parent Company is located at Al Sour Tower, Al Sour Street, Al Qebla Area, P.O. Box 4238, Safat 13043, Kuwait.

The main activities of the Parent Company are as follows:

1. Owing, selling and buying real estate and lands as well as developing them for the Company's account inside Kuwait and abroad, also managing properties for others without breaching the provisions stipulated in the existing laws that prohibit trading in private residential plots as stipulated in these laws.
2. Owing, selling and buying shares and bonds of real estate companies only for the account of the Company inside Kuwait and abroad.
3. Preparing studies and offering consultations of all kinds of real estate fields if only the required conditions are met by the parties that perform such services.
4. Owing and managing hotels, health clubs, and touristic facilities as well as renting and leasing the same.
5. Performing maintenance works related to buildings and real estate owned by the Company and others including maintenance work, execution of civil, mechanical, electrical, elevators and air conditioning work to ensure the protection and safety of buildings.
6. Managing, operating, investing in, renting and leasing hotels, clubs, motels, guest houses, parks, gardens, showrooms, restaurants, cafeterias, housing complexes, touristic and health resorts, recreational and athletic projects and stores of all degrees and levels, inclusive of all main and auxiliary services and the accompanying facilities and other necessary services.
7. Organizing real estate exhibitions related to the Company's real estate projects in accordance with Ministry's applicable regulations.
8. Holding real estate auctions as per the Ministry's applicable regulations.
9. Owing and managing commercial malls and residential complexes.
10. Utilizing financial surpluses available to the Company by investing them in financial portfolios managed by specialized companies and entities.
11. Direct contribution to develop the infrastructure for areas as well as residential, commercial and industrial projects using the BOT system (build, operate and transfer) and managing real estate facilities.

All activities are conducted in accordance with Islamic Sharee'a.

## 2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The Group has prepared the consolidated financial statements under the going concern concept of accounting. As stated in the Note 15, as at 31 December 2018, the Group was unable to meet on due dates its Islamic financing payables of approximately KD 2.3 million (2017: KD 7.7 million), and its current liabilities exceeded the current assets by approximately KD 19.2 million (2017: KD 16.0 million) at 31 December 2018. The management and the Board of Directors of the Parent Company have taken a number of actions to settle the Group's liabilities and obtain longer term funding; some of which are described below:

- During the year, the Parent Company has settled portion of its murabaha obligations amounting to KD 834 thousand.
- Subsequent to the year end as disclosed in Note 23, the Parent Company has signed a memorandum of understanding with one of the lenders to settle an outstanding balance of KD 20.4 million during the year 2019. This settlement is agreed by way of giving away certain properties in United Arab Emirates and Egypt.
- The Group is in discussion with remaining lenders to arrange for settlement, rescheduling and providing collateral coverage for its remaining finance facilities.

Based on the above, and the fact that the Group's total assets exceed its liabilities by KD 85.1 million as at 31 December 2018 (2017: KD 86.3 million), the management considers that the Group has adequate resources to continue in the foreseeable future, and accordingly the going concern basis continues to be adopted in preparing these consolidated financial statements.

## 2.2 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties and financial assets carried at fair value through other comprehensive income.

The consolidated financial statements have been presented in Kuwaiti Dinars (KD). However, the functional currency of the Parent Company is United Arab Emirate Dirham (UAE Dirham).

**Statement of compliance**
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2018.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary is prepared for the same reporting period as the Parent Company, using consistent accounting policies. The financial statements of subsidiary is consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-Group balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

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, and
- The ability to use its power over the investee to affect its returns

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 with the other vote holders of the investee
- Rights arising from other contractual arrangements

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 statement of income and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. 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.

Detail of the subsidiary company is set out below:

| *Company name* | *Country of incorporation* | *Equity interest as at 31 December* | | *Principal activities* |
|---|---|---|---|---|
| | | *2018* | *2017* | |
| Al Ain Al Ahlia for General Trading Company W.L.L. | Kuwait | 99% | 99% | Real estate activities |

## 2.3 BASIS OF CONSOLIDATION (continued)

The Parent Company's effective interest in the subsidiary is 100%. Accordingly, the consolidated financial statement have been prepared on this basis. The remaining shares are held indirectly in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of the shares in the subsidiary.

## 2.4 CHANGES IN ACCOUNTING POLICIES

**New and amended standards and interpretations**
The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

*a) Classification and measurement*
Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

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

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

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

*(b) Impairment*
IFRS 9 requires the Group to record ECLs on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the fund to credit risk, this amendment has not had a material impact on the consolidated financial statements. The Group only holds minimal relate estate finance receivables and trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and therefore has adopted an approach similar to the simplified approach to ECLs.

*(c) Hedge accounting*
The Group has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

## 2.4 CHANGES IN ACCOUNTING POLICIES (continued)

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

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

IFRS 15 did not have a significant impact on the Group's accounting policies as revenue streams mainly comprise of rental income and management fees.

***Amendments to IAS 40 - Transfers of Investment Property***
The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the Group's investment property.

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

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation of certain financial assets as measured at FVTPL.

As per the assessment of the management, impact of ECL re-measurement is not material or significant on the overall financial information.

**Classification of financial instruments on the date of initial application of IFRS 9**
The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018, however, the Group has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39. The following table shows reconciliation of original measurement categories and carrying amount in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial instruments as at 1 January 2018.

| | *Original classification under IAS 39* | *New classification under IFRS 9* | *Original carrying amount under IAS 39 KD* | *Transition adjustments KD* | *New carrying amount under IFRS 9 KD* |
|---|---|---|---|---|---|
| Financial assets available for sale carried at cost | AFS | FVOCI | 2,590,908 | - | 2,590,908 |
| Ijarah receivables | Loans and receivables | Amortised cost | 28,939,056 | - | 28,939,056 |
| Accounts receivable and prepayments | Loans and receivables | Amortised cost | 9,072,811 | - | 9,072,811 |
| Bank balances and cash | Loans and receivables | Amortised cost | 654,734 | - | 654,734 |
| **Total financial assets** | | | **41,257,509** | - | **41,257,509** |

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

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

## 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

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

**Amendments to IAS 28: *Long-term interests in associates and joint ventures***
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

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

**Business combinations and goodwill (continued)**
Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Revenue recognition**
Revenue is recognised by the Group when there has been a transfer of control of the goods or assets to the customers or when services have been rendered. The following specific recognition criteria must also be met before revenue is recognised:

*Income from the sale of properties*
Income from the sale of properties is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

*Ijara finance income*
Income from Real Estate is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

**Dividend income**
Dividend income is recognised when the right to receive payment is established.

**Islamic finance costs**
Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognized as an expense in the period in which they are incurred.

**Leases**
*Leases where the Group is lessee*
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of finance charge on the remaining balance of the liability. Finance charges are charged to the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognised as expense on straight line basis over the lease term.

Certain property interests held for investment purposes by the Group under operating lease are classified as investment properties and accounted for as if they were in the nature of finance leases.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases (continued)**

*Leases where the Group is lessor*

Leases where the Group transfers substantially all the risks and benefits of ownership of the asset are financial leases and structured in the form of Ijarah receivables.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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

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

**National Labour Support Tax (NLST)**

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of profit before deductions for the year. As per law, income from associates, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

**Zakat**

The Group calculates Zakat in accordance with the requirements of Law No. 46 of 2006 at 1% of profit before deductions for the year.

**Property and equipment**

Property and equipment is stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

| | |
|---|---|
| • Buildings | 30 years |
| • Furniture and fixtures | 3 years |
| • Computers | 1-4 years |
| • Vehicles | 3- 5 years |

The carrying values of property 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 value in use.

Expenditure incurred to replace a component of an item of property 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 property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of property 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 income statement when the asset is derecognised.

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

**Properties under development**

Properties under development are developed for future sale in the ordinary course of business, rather than to be held for rental or capital appreciation and are stated at net realizable value. Upon completion these are transferred to trading properties. Cost includes freehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value using market comparison approach, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. 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') Fair values are evaluated by an accredited external, independent valuer.

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.

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 property and equipment up to the date of change in use.

**Investment in associates**

Investment in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the 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 income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associates and therefore is profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. Where 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 additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss as 'Share of losses of an associate' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining 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 retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

**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.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

**Financial instruments**
In the current period the Group has adopted IFRS 9 *Financial Instruments*. See section 2.4 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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

***b) Classification and subsequent measurement***
*Financial assets - Policy effective from 1 January 2018 (IFRS 9)*
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

**Financial instruments (continued)**

***Financial assets – Business model assessment: Policy applicable from 1 January 2018***
The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

***Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018***
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

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

| | |
|---|---|
| ▸ Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| ▸ Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| ▸ Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses arerecognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| ▸ Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

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

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

*c) Derecognition*

***Financial assets***

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

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

***Financial liabilities***

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

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

*d) Offsetting*

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

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

*Policy applicable from 1 January 2018*
The Group previously recognized impairment losses on financial assets based on incurred loss model, under IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group recognises a loss allowance for ECL on financial assets that are measured at amortised cost. No impairment loss is recognised for equity instruments that are classified as financial assets at FVOCI. The amount of expected credit losses is updated at each reporting date.

For bank balances, trade receivables, amounts due from related parties and other 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.

*Policy applicable before 1 January 2018*
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

**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.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

**Treasury shares**
Treasury shares consist of the Parents Company's own shares that have been issued, subsequently reacquired by the Group and not yet sold or cancelled. The treasury shares are accounted for using the cost method. When treasury shares are sold, gains are credited to a separate equity account (treasury shares reserve), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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

**Provisions**
Provisions are recognized 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

**Foreign currencies**
Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at rate of exchange ruling on the reporting date. All exchange differences are taken to the consolidated statement of income.

Non-monetary items denominated in foreign currencies measured in terms of historical cost are translated using the exchange rates as at the date of the initial transaction. Non-monetary items denominated in foreign currencies and measured at fair value are translated using the exchange rate at the date when the fair value was determined.

On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti Dinars at the year-end rates of exchange and the results of these entities are translated into Kuwaiti Dinars using average rates of exchange for the year. The exchange differences arising on the translation are recognised in other comprehensive income.

The functional currency is UAE Dirham. All exchange differences arising from the translation of functional currency to presentation currency are recognised, in the statement of comprehensive income.

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

## 2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

**Judgements**
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

***Classification of real estate properties***
Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment. Property acquired principally for sale in the ordinary course of business is classified as trading property.

***Classification of financial assets***

*Effective from 1 January 2018 (IFRS 9)*
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

*Effective before 1 January 2018 (IAS 39)*
Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, held to maturity, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

**Estimation uncertainty**
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

***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.

## 2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS POLICIES (continued)

**Estimation uncertainty (continued)**

***Estimation of net realisable value for trading properties***
Trading properties are stated at the lower of cost and net realisable value (NRV).

NRV for completed trading properties is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV in respect of properties under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

***Impairment of financial assets at amortised cost***
*Effective before 1 January 2018 (IAS 39)*
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

*Effective from 1 January 2018 (IFRS 9)*
The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. 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.

***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 under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 9.

***Fair value measurement***
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.

***Properties under construction***
Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under construction 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.

## 3 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year less treasury share.

| | *2018* | *2017* |
|---|---|---|
| Loss for the year (KD) | **(1,686,881)** | (3,993,344) |
| Weighted average number of shares outstanding during the year, net of treasury shares | **1,099,525,000** | 1,099,525,000 |
| Basic and diluted loss per share | **(1.53) fils** | (3.63) fils |

As there are no dilutive potential ordinary shares basic and diluted loss per share are identical.

## 4 WRITE BACK OF LIABILITIES NO LONGER REQUIRED

During the prior year, the management of the Parent Company reversed payables that have been outstanding for more than 9 years and were no longer payable, based on the advice from their internal legal counsel.

## 5 PROPERTIES UNDER DEVELOPMENT

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| As at 1 January | **105,459,497** | 105,534,103 |
| Additions | **358,195** | 1,385,777 |
| Foreign currency adjustments | **537,933** | (1,460,383) |
| As at 31 December | **106,355,625** | 105,459,497 |

Properties under development represent the cost of freehold properties and subsequent development cost incurred by the Group. The properties are located in the United Arab Emirates.

At the reporting date, properties under development with a carrying value of KD 105,105,567 (2017: KD 104,215,784) are mortgaged as collateral against Islamic financing payables (Note 15).

## 6 INVESTMENT PROPERTIES

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| As at 1 January | **28,726,697** | 30,814,695 |
| Unrealised loss on revaluation | **-** | (1,625,000) |
| Foreign currency adjustments | **165,079** | (462,998) |
| As at 31 December | **28,891,776** | 28,726,697 |

Included in investment properties are certain properties amounting to KD 11,577,902 (2017: KD 11,500,700) for which legal titles have not been transferred in the name of the Group by the vendor. The vendor has confirmed in writing that the Parent Company is the beneficial owner of these properties.

At the reporting date, investment properties with a carrying value of KD 4,519,070 (2017: KD 4,496,133) are mortgaged as collateral against Islamic financing payables (Note 15).

The Group's investment properties were revalued at 31 December 2018 based on valuations obtained from two independent professionally qualified valuers. The valuation of the properties has been determined based on comparable market values for similar properties and are classified under level 2 of fair value hierarchy (Note 22).

## 7 INVESTMENT IN ASSOCIATES

| *Name of the company* | *Country of incorporation* | *% equity interest 2018* | *% equity interest 2017* | *Activities* |
|---|---|---|---|---|
| Al Jaddaf Real Estate Company K.S.C. (Closed) | Kuwait | **35.9%** | 35.9% | Real Estate Development |
| Abyaar Qatar Real Estate Development Company K.S.C. (Closed)* | Kuwait | **15.15%** | 15.15% | Real Estate Development (under liquidation) |
| Makan United Real Estate Company K.S.C. | Kuwait | **20%** | 20% | Real Estate |
| Tamec General Trading and Contracting Company W.L.L. | Kuwait | **20%** | 20% | General Trading and Contracting |

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| As at 1 January | **4,967,669** | 5,313,100 |
| Partial redemption | **(57,995)** | - |
| Disposal of associates | **-** | (145,431) |
| Impairment | **-** | (200,000) |
| As at 31 December | **4,909,674** | 4,967,669 |

The fair value of investment in associates could not be reliably measured as the associates are unquoted and they do not have published quoted prices.

Investment in an associate amounting to KD 4,824,279 (2017: KD 4,824,279) is mortgaged as collateral against Islamic financing payables (Note 15).

The following tables illustrates summarized financial information of the Group's material associates:

a) Al Jaddaf Real Estate Company K.S.C. (Closed)

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| Non - current assets | **14,721,943** | 14,721,943 |
| Current assets | **281,328** | 281,328 |
| Total assets | **15,003,271** | 15,003,271 |
| Current liabilities | **51,016** | 51,016 |
| Total liabilities | **51,016** | 51,016 |
| Net Assets | **14,952,255** | 14,952,255 |

Net operating income and results of 31 December 2018 and 2017 are insignificant.

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is given below:

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| Group's ownership interest (%) | **35.9%** | 35.9% |
| Net assets | **5,367,860** | 5,367,860 |
| Impairment | **(543,581)** | (543,581) |
| Investment carrying value as of 31 December 2018 | **4,824,279** | 4,824,279 |

## 7 INVESTMENT IN ASSOCIATES (continued)

b) Other associates are individually immaterial and are either fully impaired or under liquidation.

* The Parent Company exercises significant influence (even though the percentage of ownership is less than 20%) over the above investments in associate, through representation on the Board of Directors of this entity and joint participation in major business transactions.

* On 18 September 2014, the Extraordinary General Assembly of Abyaar Qatar Real Estate Development Company K.S.C. (Closed) decided to liquidate the Company. Accordingly, the Group received an amount of KD 2,676,402 as liquidation settlement. The Group Management recording an impairment amounting to KD Nil (2017: KD 200,00) in the consolidated statement of income, which it believes that its non- recoverable on the final settlement. During the year, the Parent Company received KD 57,995 (2017: KD Nil) as a partial redemption from associate which brings its investment in associate balance to KD 85,395 (2017: KD 143,390).

## 8 INVESTMENT SECURITIES

| | *2018 KD* | *2017 KD* |
|---|---|---|
| *Financial assets at fair value through other comprehensive income (IFRS 9):* | | |
| - Unquoted managed equity securities | 2,558,934 | - |
| | 2,558,934 | - |
| *Available for sale financial assets (IAS 39):* | | |
| - Unquoted managed equity securities* | - | 2,590,908 |
| | - | 2,590,908 |

*Unquoted managed equity securities amounting to KD 2,590,908 are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the Group intends to hold them for the long term. During the prior year, the management has carried out a review of these investments to assess whether there is objective evidence that these investments are impaired and concluded that there was no indicator of further impairment on these financial assets available for sale.

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

Financial assets available for sale amounting to KD 1,500,000 (2017: KD 1,500,000) are mortgaged as collateral against Islamic financing payables (Note 15).

## 9 IJARAH RECEIVABLES

| | *2018 KD* | *2017 KD* |
|---|---|---|
| Gross amount | 35,067,209 | 34,883,741 |
| Less: deferred profit receivable | (5,975,011) | (5,944,685) |
| | 29,092,198 | 28,939,056 |
| Less: Expected credit loss | (1,158,742) | - |
| | 27,933,456 | 28,939,056 |

Ijarah receivables amounting to KD 27,933,456 (2017: 27,793,134) is classified as non-current assets in the consolidated statement of financial position.

Ijarah receivables represent sublease of certain plots of land to a third party which were held under operating leases and were classified and accounted for as investment properties by the Group.

Ijarah receivable is secured and carry profit at an average rate of 1.9 % (2017: 1.9%) per annum.

The counter party has defaulted on Ijara receivables instalments. The fair value of the sublease is higher than the carrying value of the receivables.

Ijarah receivable is due for collection on a semiannual basis starting form 31 December 2012 to 30 June 2039.

During the year the management recorded an expected credit loss against it current portion of Ijara receivable amounting to KD 1,158,742 (2017: KD Nil).

## 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Receivable from customers | **4,367,247** | 4,507,220 |
| Prepaid expenses and commissions | **938,770** | 946,569 |
| Advance for purchase of property and equipment | **2,252,869** | 2,241,434 |
| Other receivables | **647,751** | 1,377,588 |
| | **8,206,637** | 9,072,811 |

## 11 BANK BALANCES AND CASH

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Bank balances and cash | **807,094** | 654,734 |
| Less: restricted bank balances | **(806,871)** | (654,703) |
| Bank balances and cash for the purpose of consolidated statement of cash flows | **223** | 31 |

Restricted bank balances represent amounts held in escrow accounts. The Group cannot use these amounts until fulfilment of obligations related to construction and completion of certain projects.

## 12 SHARE CAPITAL

At 31 December 2018, issued and fully paid up capital of the Parent Company is 1,107,275,000 shares (2017: 1,107,275,000 shares) of 100 fils each paid fully in cash.

## 13 RESERVES

a) **Statutory reserve**
In accordance with the Parent Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before directors' fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax and Zakat 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 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 transfer to the statutory reserve during the year as the Group has incurred losses.

b) **Voluntary reserve**
In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before tax and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. No transfer to the voluntary reserve during the year as the Group has incurred losses.

## 14 TREASURY SHARES

| | *2018* | *2017* |
|---|---|---|
| Number of treasury shares | **7,750,000** | 7,750,000 |
| Percentage of issued shares | **0.7%** | 0.7% |
| Market value (KD) | **117,800** | 157,325 |

Reserves of the Parent Company equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable in the Parent Company.

## 15 ISLAMIC FINANCING PAYABLES

| | *2018 KD* | *2017 KD* |
|---|---|---|
| Gross amount | **42,814,809** | 43,580,468 |
| Less: deferred profit payable | **(933,650)** | (1,118,436) |
| | **41,881,159** | 42,462,032 |
| **Classified as** | | |
| Current | **21,000,463** | 19,717,408 |
| Non-current | **20,880,696** | 22,744,624 |
| | **41,881,159** | 42,462,032 |

(a) Islamic financing payables amounting to KD 36,821,011 (2017: KD 37,416,106) are secured by way of collaterals in the form of properties under development amounting to KD 105,105,567 (2017: KD 104,215,784) (Note 5), investment properties amounting to KD 4,519,070 (2017: KD 4,496,133) (Note 6), investment in associates amounting to KD 4,824,279 (2017: KD 4,824,279) (Note 7), and financial assets available for sale amounting to KD 1,500,000 (2017: KD 1,500,000) (Note 8).

(b) Subsequent to the date of the financial position, and as disclosed in Note 23, the Parent Company signed a Memorandum of Understanding with one of its lenders to settle Islamic finance facilities amounting to KD 20,399,604 through in-kind settlements.

(c) On 26 November 2018, the Parent Company announced in the Kuwait Stock Exchange that a lender, whose related balance recorded in the Parent Company books amounts to KD 11,074,613, began legal procedure to recover the amount of the loan. This particular loan is secured through the Group's investment in associate with carrying value of KD 4,824,279.

During the year, the Group has not settled installments of Islamic financing payables amounting to KD 2,258,110 (2017: KD 7,662,262) and is currently in process of rescheduling these payments.

The effective rate of profit payable vary from 4.5% to 7.0% (2017: 4.5% to 7.0%) per annum.

## 16 ACCOUNTS PAYABLE AND ACCRUALS

| | *2018 KD* | *2017 KD* |
|---|---|---|
| Advances from customers | **44,970,456** | 44,030,906 |
| Accrued expenses and other payables | **1,174,171** | 983,898 |
| Payable on purchase of investment properties | **1,284,694** | 1,278,173 |
| Payable to contractors and consultants | **4,788,916** | 4,932,478 |
| | **52,218,237** | 51,225,455 |
| **Classified as** | | |
| Current | **7,247,781** | 7,194,549 |
| Non-current | **44,970,456** | 44,030,906 |
| | **52,218,237** | 51,225,455 |

## 17 RELATED PARTY TRANSACTIONS

Related parties represent associates, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

These represent transactions with certain parties entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Parent Company's management.

There were no balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of income as at and for the year ended 31 December 2018.

## 17 RELATED PARTY TRANSACTIONS (continued)

**Key management compensation:**

| | *2018 KD* | *2017 KD* |
|---|---|---|
| Short term benefits | **244,507** | 257,925 |
| Employees' end of service benefits | **106,789** | 77,638 |
| **Total** | **351,296** | 335,563 |

## 18 COMMITMENTS

At 31 December 2018 the Group has commitments related to future capital expenditure amounting to KD 9,544,715 (2017: KD 10,858,504).

## 19 SEGMENT INFORMATION

For management purpose the Group is organised into three major geographical segments:

- United Arab Emirates ("UAE")
- Kuwait
- Other countries

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The Group does not have any inter-segment transactions.

| | *UAE* | | *Kuwait* | | *Other countries* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | ***2018*** ***KD*** | *2017* *KD* | ***2018*** ***KD*** | *2017* *KD* | ***2018*** ***KD*** | *2017* *KD* | ***2018*** ***KD*** | *2017* *KD* |
| Segment revenue | **-** | 811,539 | **276,611** | 154,337 | **-** | - | **276,611** | 965,876 |
| Segment expenses | **(1,426,612)** | (626,888) | **(536,880)** | (2,707,332) | **-** | (1,625,000) | **(1,963,492)** | (4,959,220) |
| Segment result | **(1,426,612)** | 184,651 | **(260,269)** | (2,552,995) | **-** | (1,625,000) | **(1,686,881)** | (3,993,344) |
| Segment assets | **162,609,698** | 163,531,863 | **5,478,806** | 5,402,980 | **11,577,902** | 11,500,700 | **179,666,406** | 180,435,543 |
| Segment liabilities | **59,226,029** | 57,974,746 | **35,348,545** | 36,142,837 | **-** | - | **94,574,574** | 94,117,583 |
| Commitments and capital expenditures | **9,544,715** | 10,858,504 | **-** | - | **-** | - | **9,544,715** | 10,858,504 |

## 20 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group achieving profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk and currency risk. It is also subject to operational risks.

The Board of Directors of the Parent Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

### 20.1 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk on its receivables and bank balances.

The Parent Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all other receivables. The Groups's receivable has not significantly affected from applying IFRS 9 as the receivable from related parties are monitored on ongoing basis by the Management and considered receivable. Accordingly, no provision was held against receivable from related parties.

The credit risk in respect of bank balances is limited as these are maintained only with reputable banks with appropriate credit ratings.

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Ijarah receivables (Note 9) | **27,933,456** | 28,939,056 |
| Accounts receivable and prepayments* (Note 10) | **7,267,867** | 8,126,242 |
| Bank balances (Note11) | **807,094** | 654,734 |
| **Total** | **36,008,417** | 37,720,032 |

* Excluded from accounts receivable and prepayments are prepaid expenses and commissions of KD 938,770 for the year ended 31 December 2018 (2017: KD 946,569).

*Maximum exposure to credit risk*
The Group's policy is to enter into arrangements only with recognised, creditworthy counter parties. The maximum exposure with respect to credit risk arising from financial assets of the Group, which comprise accounts receivables, Ijarah receivables and bank balances, is equal to the carrying amount of these instruments.

*Risk concentrations of the maximum exposure to credit risk*
The maximum credit exposure to any client or counterparty as of 31 December 2018 was KD 1,721,679 (2017: KD 1,740,649) before taking account of collateral or other credit enhancements.

The Group's receivable is primarily from clients located in United Arab Emirates.

*Collateral and other credit enhancements*
Ijarah Receivable and receivable from customers are secured by way of title documents of the property.

*Credit quality for class of financial assets that are neither past due not impaired*
Neither internal credit grading system nor external credit grades are used by the Group to manage the credit quality of receivables. Receivable balances are monitored on an ongoing basis.

## 20 RISK MANAGEMENT (continued)

### 20.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately and are included in less than three months.

| Financial liabilities | *Less than 3 months KD* | *3 to 12 months KD* | *1 to 5 years KD* | *Total KD* |
|---|---|---|---|---|
| **2018** | | | | |
| Islamic financing payables | 2,258,110 | 18,742,353 | 21,814,346 | 42,814,809 |
| Accounts payables and accruals* | 436,059 | 6,811,722 | - | 7,247,781 |
| **Total** | **2,694,169** | **25,554,075** | **21,814,346** | **50,062,590** |
| 2017 | | | | |
| Islamic financing payables | 6,163,600 | 14,091,233 | 23,325,635 | 43,580,468 |
| Accounts payables and accruals* | 469,845 | 6,724,704 | - | 7,194,549 |
| Total | 6,633,445 | 20,815,937 | 23,325,635 | 50,775,017 |

* Excluded from accounts payable and accruals are advances from customers amounting to KD 44,970,456 for the year ended 31 December 2018 (2017: KD 44,030,906).

### 20.3 Market Risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risks arise for open positions in profit, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rate foreign exchange rates and equity prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and the directors' estimate of long and short term changes in fair value.

#### *20.3.1 Profit rate risk*

Profit rate risk arises from the possibility that changes in profit will affect future cash flows or the fair values of financial instruments. The Group's borrowings are in the form of Murabaha and Ijarah which are Islamic financing instruments with a fixed rate of profit. Consequently the Group is not exposed to profit risk.

#### *20.3.2 Currency risk*

Currency risk is managed on the basis of limits determined by the Parent Company's Board of Directors' and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is a minimal risk of losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The effect on loss (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

| | *Currency* | *Change in currency rate in %* | *Effect on result KD* |
|---|---|---|---|
| **2018** | **KD** | **+/- 1** | **156,259** |
| 2017 | KD | +/- 1 | 188,838 |

## 20 RISK MANAGEMENT (continued)

### 20.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

## 21 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic financing payables, less bank balances and cash.

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Islamic financing payables (Note 15) | **41,881,159** | 42,462,032 |
| Less: bank balance and cash (Note 11) | **(807,094)** | (654,734) |
| Net debt | **41,074,065** | 41,807,298 |
| Equity | **85,091,832** | 86,317,960 |
| **Capital and net debt** | **126,165,897** | 128,125,258 |
| Gearing ratio | **33%** | 33% |

## 22 FAIR VALUE MEASUREMENTS

### 22.1 Financial instruments

The following tables provide the fair value measurement hierarchy of the Group's financial assets:

| | | **Fair value measurement using** | | |
|---|---|---|---|---|
| *31 December 2018* | *Total* *KD* | *Quoted prices in active markets (Level 1)* *KD* | *Significant observable inputs (Level 2)* *KD* | *Significant unobservable inputs (Level 3)* *KD* |
| *Financial assets at fair value through other comprehensive income:* | | | | |
| Unquoted equity securities | 2,558,934 | - | - | 2,558,934 |
| | 2,558,934 | - | - | 2,558,934 |

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

## 22 FAIR VALUE MEASUREMENTS (continued)

### 22.1 Financial instruments (continued)

**Valuation techniques**
The Group invests in structured 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, as 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

For all other financial assets and liabilities, management assessed that the carrying value approximates fair value.

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

| *31 December 2018* | *At 1 January KD* | *IFRS 9 transition adjustment KD* | *Total gains recognised in profit or loss KD* | *Total gains recognised in OCI KD* | *Net (sales) and purchases KD* | *At 31 December KD* |
|---|---|---|---|---|---|---|
| *Financial assets at fair value through other comprehensive income:* | | | | | | |
| Unquoted equity securities* | - | **2,558,934** | - | - | - | **2,558,934** |

* Due to a change in accounting policy, investment securities measured at cost less impairment (in accordance with IAS 39) amounting to KD 2,558,934 were recognised in Level 3 for the first time. Refer to Note 8 for more information.

**Description of significant unobservable inputs to valuation:**
The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2018 are as shown below:

| Significant unobservable valuation inputs | Range | Sensitivity of the input to fair value |
|---|---|---|
| Discount for lack of marketability (DLOM) | 20% (2017: Nil) | 10% (2017: 10%) increase (decrease) in the discount would decrease (increase) the fair value by KD 511,787 (2017: KD Nil) |

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

### 22.2 Non-financial assets

The following tables provide the fair value measurement hierarchy of the Group's non-financial assets:

| | *Significant observable inputs (Level 2) KD* | *Total KD* |
|---|---|---|
| *31 December 2018* | | |
| Investment properties (Note 6) | 28,891,776 | 28,891,776 |
| *31 December 2017* | | |
| Investment properties (Note 6) | 28,726,697 | 28,726,697 |

*Level 2 hierarchy*
The fair value of investment properties under the Level 2 hierarchy were determined using the market comparable approach, conducted by valuators considering recent transaction prices of the property and similar properties. Market price per square meter and annual income are the significant observable market inputs to the valuation.

## 23 EVENTS AFTER THE REPORTING PERIOD

On 18 February 2019, the Parent Company announced in the Kuwait Stock Exchange that it signed a memorandum of understanding with one of its lenders to settle Islamic finance payable amounting to KD 20,399,604, representing the principal balance of the finance facilities and the related finance costs up to 31 December 2018, through in-kind consideration worth KD 19,432,305 at the date of signing the final settlement agreement, maximum by 30 June 2019, as follows:

a) Properties under development and investment properties with current carrying value of KD 22,874,040 and KD 11,577,901, respectively, are to be considered as in-kind settlement of KD 11,700,000 pursuant to this Memorandum of Understanding. The Parent Company will record the loss of KD 22,751,941 as and when the settlements are executed.

b) Certain units of property under development with total carrying value of KD 35,534,271 are to be considered as in-kind settlement of KD 7,075,513. The quantity of the units is still undetermined, pending the outcome of fair value of the property to be agreed by the lender.

c) Certain investments classified as investments at fair value through income statement with carrying value of KD 656,792 are to be in-kind settlement of KD 656,792.