شركة الراية العالمية العقارية

AL-RAYA GLOBAL REAL ESTATE CO.

ANNUAL REPORT 2017

التقرير السنوي ٢٠١٧

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Consolidated financial statements and independent auditor's report

Al Raya Global Real Estate Company – KSC (Closed) and Subsidiaries

Kuwait

31 December 2017

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Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Al Raya Global Real Estate Company – KSC (Closed) ("the parent company") and its subsidiaries (the "group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern
As stated in note 17.2 to the consolidated financial statements, the shareholders of the parent company have resolved to dispose of the parent company's assets over a two-year period beginning 23 March 2016. No adjustment has been made in these consolidated financial statements as the group is expected to continue for foreseeable future and at least for the next twelve months.

This matter indicates that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. Other information consists of the report of the parent company's board of directors, other than the consolidated financial statements and our auditor's report.

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

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Independent Auditor's Report to the Shareholders of Al Raya Global Real Estate Company – KSC (Closed) (continued)

Other Information (continued)
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, 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 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.

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 skepticism 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.

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Independent Auditor's Report to the Shareholders of Al Raya Global Real Estate Company – KSC (Closed) (continued)

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

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

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

We communicate with management 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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the parent company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the parent company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business or financial position of the parent company

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
6 March 2018

Consolidated statement of profit or loss

	Notes	**Year ended 31 Dec. 2017**	Year ended 31 Dec. 2016
		KD	KD
Revenue			
Real estate rental income, net	8	**245,297**	504,385
Change in fair value of investment properties	10	**7,000**	(1,280,527)
Loss on sale of investment properties		**(20,280)**	(117,630)
Net loss on investments at fair value through profit or loss		**-**	(23,454)
Loss on sale of available for sale investments		**-**	(65,234)
Dividend income		**-**	9,674
Murabaha and other income		**75,886**	102,480
		307,903	(870,306)
Expenses and other charges			
Staff costs		**(168,155)**	(198,649)
General and administrative expenses		**(34,914)**	(48,572)
Depreciation and amortisation		**(391)**	(602)
Foreign exchange gain/(loss)		**568**	(3,974)
		(202,892)	(251,797)
Profit/(loss) before provisions for contribution to KFAS, Zakat and directors remuneration		**105,011**	(1,122,103)
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(963)**	-
Provision for Zakat		**(544)**	-
Directors' remuneration		**-**	-
Profit/(loss) for the year		**103,504**	(1,122,103)
Attributable to:			
Shareholders of the parent company		**105,496**	(809,501)
Non-controlling interests		**(1,992)**	(312,602)
		103,504	(1,122,103)
Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company (Fils)	9	**1.46**	(8.10)

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Profit/(loss) for the year	**103,504**	(1,122,103)
Other comprehensive income/(loss):		
Items that will be reclassified subsequently to consolidated statement of profit or loss:		
Exchange differences arising on translation of foreign operations	**37,336**	(13,593)
Available for sale investments:		
- Net change in fair value arising during the year	**-**	(13,800)
-Transferred to consolidated statement of profit or loss on sale	**-**	69,000
Total other comprehensive income	**37,336**	41,607
Total comprehensive income/(loss) for the year	**140,840**	(1,080,496)
Attributable to:		
Shareholders of the parent company	**82,814**	(743,267)
Non-controlling interests	**58,026**	(337,229)
	140,840	(1,080,496)

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2017 KD	31 Dec. 2016 KD
Assets			
Non-current assets			
Furniture and equipment		**140**	373
Investment properties	10	**4,335,972**	8,171,917
Intangible assets		**38**	196
Available for sale investments	11	**236,825**	236,825
		4,572,975	8,409,311
Current assets			
Accounts receivable and other assets	12	**102,147**	125,988
Short term deposit	13	**3,778,000**	4,250,000
Cash and bank balances		**725,195**	339,796
		4,605,342	4,715,784
Total assets		**9,178,317**	13,125,095
Equity and liabilities			
Equity			
Share capital	14	**5,350,000**	9,600,000
Legal reserve	15	**344,798**	334,098
Voluntary reserve	15	**344,798**	334,098
Foreign currency translation reserve		**4,090**	26,772
Retained earnings		**1,275,688**	1,191,592
Equity attributable to the shareholders of the parent company		**7,319,374**	11,486,560
Non-controlling interests		**(1,551)**	(3,605,751)
Total equity		**7,317,823**	7,880,809
Non-current liabilities			
Provision for employees' end of service benefits		**81,714**	134,307
		81,714	134,307
Current liabilities			
Accounts payable and other liabilities	16	**1,778,780**	5,109,979
		1,778,780	5,109,979
Total liabilities		**1,860,494**	5,244,286
Total equity and liabilities		**9,178,317**	13,125,095

Wafaa Barrak Al-Tabtabaei
Chairperson

Sulaiman Fahad Al-Said
Vice Chairman

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Attributable to the shareholders of the parent company							Non-controlling interests	Total
	Share capital KD	Legal reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	KD	KD
Balance at 1 January 2017	**9,600,000**	**334,098**	**334,098**	**-**	**26,772**	**1,191,592**	**11,486,560**	**(3,605,751)**	**7,880,809**
Capital reduction (note 17.1)	**(4,250,000)**	**-**	**-**	**-**	**-**	**-**	**(4,250,000)**	**-**	**(4,250,000)**
Transactions with shareholders	**(4,250,000)**	**-**	**-**	**-**	**-**	**-**	**(4,250,000)**	**-**	**(4,250,000)**
Effect of set-off accumulated losses in a subsidiary on non-controlling interests (note 16.2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,546,174**	**3,546,174**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**105,496**	**105,496**	**(1,992)**	**103,504**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(22,682)**	**-**	**(22,682)**	**60,018**	**37,336**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(22,682)**	**105,496**	**82,814**	**58,026**	**140,840**
Transfer to reserve	**-**	**10,700**	**10,700**	**-**	**-**	**(21,400)**	**-**	**-**	**-**
Balance at 31 December 2017	**5,350,000**	**344,798**	**344,798**	**-**	**4,090**	**1,275,688**	**7,319,374**	**(1,551)**	**7,317,823**

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Attributable to the shareholders of the parent company							Non-controlling interests	Total
	Share capital KD	Legal reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	KD	KD
Balance at 1 January 2016	10,757,077	334,098	334,098	(55,200)	15,738	2,001,093	13,386,904	(3,268,522)	10,118,382
Capital reduction	(1,157,077)	-	-	-	-	-	(1,157,077)	-	(1,157,077)
Transactions with shareholders	(1,157,077)	-	-	-	-	-	(1,157,077)	-	(1,157,077)
Loss for the year	-	-	-	-	-	(809,501)	(809,501)	(312,602)	(1,122,103)
Other comprehensive income/(loss)	-	-	-	55,200	11,034	-	66,234	(24,627)	41,607
Total comprehensive income/(loss) for the year	-	-	-	55,200	11,034	(809,501)	(743,267)	(337,229)	(1,080,496)
Balance at 31 December 2016	9,600,000	334,098	334,098	-	26,772	1,191,592	11,486,560	(3,605,751)	7,880,809

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
OPERATING ACTIVITIES		
Profit/(loss) before provisions for contribution to KFAS, Zakat and directors remuneration	**105,011**	(1,122,103)
Adjustments for:		
Depreciation and amortisation	**391**	601
Provision for employees' end of service benefits	**18,987**	17,311
Dividend income	**-**	(9,674)
Change in fair value of investment properties	**(7,000)**	1,280,527
Loss on sale of investment properties	**20,280**	117,630
Murabaha and other income	**(75,886)**	(102,480)
Loss on sale of available for sale investments	**-**	65,234
	61,783	247,046
Changes in operating assets and liabilities:		
Investments at fair value through profit or loss	**-**	23,454
Accounts receivable and other assets	**33,652**	65,567
Accounts payable and other liabilities	**(23,526)**	5,687
Employees' end of service benefits paid	**(71,580)**	(9,385)
Net cash from operating activities	**329**	332,369
INVESTING ACTIVITIES		
Additions to investment properties	**-**	(3,780)
Proceeds from sale of investment properties	**3,779,720**	3,973,696
Proceeds from sale of available for sale investments	**-**	19,636
Dividend income received	**-**	9,674
Murabaha and other income received	**66,075**	12,411
Net movement in short term deposit	**472,000**	(4,250,000)
Net cash from/(used in) investing activities	**4,317,795**	(238,363)
FINANCING ACTIVITIES		
Dividend paid	**(5,387)**	(39,720)
Amounts paid to shareholders as a result of capital reduction	**(3,927,338)**	(1,038,907)
Net cash used in financing activities	**(3,932,725)**	(1,078,627)
Net decrease in cash and cash equivalents	**385,399**	(984,621)
Cash and cash equivalents at the beginning of the year	**339,796**	1,324,417
Cash and cash equivalents at the end of the year	**725,195**	339,796

The notes set out on pages 10 to 35 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

Al Raya Global Real Estate Company – KSC (Closed) (the "parent company") was incorporated in Kuwait on 3 July 2005 in accordance with the Commercial Companies Law as a closed Kuwaiti shareholding company.

The objectives of the parent company include all real estate activities for the company or third parties in accordance with Islamic Sharia'a. These include the following:

- Acquire, sell and purchase real estate properties and lands and develop same in favor of the company inside and outside the State of Kuwait, in addition to managing others' properties in such a way that does not violate the provisions stipulated in the existing laws and what has been prohibited by these laws such as trading in the private residence plots as stated in these laws.
- Acquire, sell and purchase shares and bonds of the real estate companies only in favor of the company inside and outside Kuwait.
- Prepare studies and provide consultations in all kinds of real estate fields, provided the required terms and conditions are met by those who offer this service.
- Acquire, manage, rent out and lease hotels, health clubs and tourism utilities.
- Perform maintenance works related to the buildings and properties owned by the company and others and carry out civil, mechanical and electrical works, elevators and air conditioning works in such a way that maintains buildings and their safety.
- Manage, operate, invest, rent out, and lease hotels, clubs, motels, guest houses, rest houses, parks, gardens, exhibitions, restaurants, cafeterias, residential complexes, tourism and health resorts, recreational and sport projects, and shops of all degrees and levels, including all original and allied services and other related utilities and services.
- Organize real estate exhibitions for the company's real estate projects in accordance with the regulations applied in the Ministry.
- Hold real estate auctions in accordance with the regulations applied in the Ministry.
- Acquire and manage commercial markets and residential complexes.
- Utilize the surplus funds available with the company by investing same in financial portfolios managed by specialized companies and entities.
- Contribute directly to set out the basic structure of the residential, commercial and industrial areas and projects by "Building, Operation & Transfer" (BOT) system and manage the real estate utilities by BOT system.

In all cases the parent company is governed in all its activities by Islamic Sharia'a principles and decisions of Sharia'a board are obligatory to the parent company.

The group comprises the parent company and its subsidiaries. Details of subsidiary companies are set out in note 7.

The address of the parent company's registered office is PO Box 26283, Safat 13123, State of Kuwait.

These consolidated financial statements were authorised for issue by the parent company's board of directors on 6 March 2018 and are subject to the approval of the General Assembly of the shareholders.

2 Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets available for sale and investment properties that have been measured at fair value.

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

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

The group has elected to present the "statement of profit or loss and other comprehensive income" in two statements: the "statement of profit or loss" and a "statement of profit or loss and other comprehensive income".

3 Statement of compliance

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

4 Changes in accounting policies

4.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the group. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes).

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement;
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
    - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses;
    - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The amendments did not have any impact on the group's consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B10-B16) apply to an entity's interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

The application of the amendments did not have any impact on the consolidated financial statements of the group as none of the group entities are classified as, or included in disposal group that is classified as held for sale.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's consolidated financial statements.

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over income tax treatments	1 January 2019

IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management does not anticipate that the application of the amendments in the future will have a significant impact on the group's consolidated financial statements.

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The main areas of expected impact are as follows:

- the classification and measurement of the financial assets based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) and Fair Value Through Profit or Loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at FVTOCI will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVTOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the group's financial assets and liabilities as at 31 December 2017 and of the circumstances that existed at that date, management of the Group have determined the impact of implementation of IFRS 9 on the consolidated financial statements of the Group as follows:

Classification and measurement:

Equity investments are to be measured at FVTOCI as certain existing investments in equity instruments qualify for designation as FVTOCI category. The gains and losses on these investments will no longer be recycled to statement of profit or loss on subsequent measurement or on derecognition. Further, these investments are no longer subject to impairment test.

As a result of new classifications, equity investments amounting to KD236,825 will be reclassified from Available for Sale to FVOCI and will result in reversal of previously recognised impairment losses amounting to KD347,965 related to these investments from retained earnings to the fair value reserve.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There is no impact on the financial liabilities of the group and will continue to be measured at amortised cost.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Impairment:
The group expects to apply simplified approach to impairment for accounts receivable and due from related parties as required or permitted under the standard.

However, the group doesn't expect to recognise any significant impairment losses on its accounts receivable and due from related parties.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenues – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
    - non-cash consideration and asset exchanges
    - contract costs
    - rights of return and other customer options
    - supplier repurchase options
    - warranties
    - principal versus agent
    - licencing
    - breakage
    - non-refundable upfront fees, and
    - consignment and bill-and-hold arrangements.

The group recognises revenue from the following major sources:

Rental income- renting at pre agreed prices and is not subject to any discounts or rebates. The group has reassessed its revenue recognition policy and has concluded that it will continue to recognise revenue at agreed rates. Hence, the implementiaon of the IFRS 15 on 1 January 2018 did not have any impact on the group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRIC 23 Uncertainty over income tax treatments

The Interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRIC IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specified item of income in a tax return is an uncertain treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the group's consolidated financial statements.

5 Significant accounting policies

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below:

5.1 Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiaries (see note 7).

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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 consolidated statement of profit or loss.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in consolidated statement of profit or loss immediately.

5.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.3 Revenue (continued)

5.3.1 Rental income

Rental income arising from investment properties is accounted for on a straight line basis over the lease terms.

5.3.2 Dividend income

Dividend income is recognized when right to receive payment is established.

5.3.3 Murabaha and similar income

Murabaha and similar income is recognised on a time proportionate basis, taking into account the principal outstanding and the profit rate applicable.

5.4 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

5.5 Finance costs

Finance costs are calculated and recognised on a time proportionate basis taking into account the principal loan balance outstanding and the cost rate applicable.

5.6 Taxation

5.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.6.2 Zakat

Contribution to Zakat is calculated at 1% of the profit of the group attributable to the shareholders of the parent company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

5.6.3 Taxation on overseas subsidiaries

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

5.7 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.7 Investment properties (continued)

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in consolidated statement of profit or loss within change in fair value of investment properties.

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.

5.8 Impairment testing of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.9 Financial instruments

5.9.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either

  (a) the group has transferred substantially all the risks and rewards of the asset or
  (b) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.9 Financial instruments (continued)

5.9.1 Recognition, initial measurement and derecognition (continued)

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

5.9.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- financing and receivables
- available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

- ***Financing and receivables***

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The group categorises financing and receivables into following categories:

Trade receivables

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances which are subject to an insignificant risk of changes in value.

- ***AFS financial assets***

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.9 Financial instruments (continued)

5.9.2 Classification and subsequent measurement of financial assets (continued)

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in the consolidated statement of profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in the consolidated statement of profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to the consolidated statement of profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity 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. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in consolidated statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.9.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include accounts payable and other liabilities.

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

Accounts payables and other liabilities

Accounts payable and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

5.9.4 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective cost rate.

5.9.5 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.9.6 Offsetting of financial instruments

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.9.7 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

5.10 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the parent company's memorandum of incorporation and articles of association.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into Kuwaiti Dinars (KD)
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings include all current and prior period retained earnings. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

5.11 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.12 Foreign currency translation

5.12.1 Functional and presentation currency

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.12.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.12.3 Foreign operations

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

5.13 End of service benefits

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

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

5.14 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are approved by management.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as at fair value through profit or loss.

Classification of assets as financing and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6.1.2 Classification of real estate

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

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

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

6.1.3 Control assessment

When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.1 Impairment of available for sale equity investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

6.2.2 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

6.2.3 Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

7 Subsidiary companies

7.1 Composition of the group

Set out below are the details of subsidiaries held directly by the group:

	Country of incorporation	Voting capital held %		Principal activities
		31 Dec. 2017	31 Dec. 2016	
Bait Al-Raya Real Estate Development Company – WLL	Jordan	**50%**	50%	Real estate activities
Bait Al Raya Real Estate Company – WLL	Saudi Arabia	**100%**	100%	Real estate activities

7.2 Subsidiary with material non-controlling interests

The group includes one subsidiary, Bait Al-Raya Real Estate Development Company–WLL, with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Loss allocated to NCI		Accumulated NCI	
	31 Dec. 2017 KD	31 Dec. 2016 KD	**31 Dec. 2017 KD**	31 Dec. 2016 KD	**31 Dec. 2017 KD**	31 Dec. 2016 KD
Bait Al-Raya Real Estate Development Company-WLL	**50%**	50%	**(1,992)**	(312,602)	**(1,551)**	(3,605,751)

No dividends were paid to the NCI during the years 2017 and 2016.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiary with material non-controlling interests (continued)

Summarised financial information for Bait Al-Raya Real Estate Development Company–WLL, before intragroup eliminations, is set out below:

	31 Dec. 2017 KD	31 Dec. 2016 KD
Non-current assets	**2,537,841**	2,580,786
Current assets	**1,686**	2,685
Total assets	**2,539,527**	2,583,471
Non-current liabilities	**2,542,628**	9,794,973
Current liabilities	**-**	-
Total liabilities	**2,542,628**	9,794,973
Equity attributable to the shareholders of the parent company	**(1,551)**	(3,605,751)
Non-controlling interests	**(1,551)**	(3,605,751)

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Revenue	**-**	-
Loss for the year attributable to the shareholders of the parent company	**(1,992)**	(312,602)
Loss for the year attributable to NCI	**(1,992)**	(312,602)
Loss for the year	**(3,984)**	(625,204)
Other comprehensive income for the year attributable to the shareholders of the parent company	**-**	-
Other comprehensive income for the year attributable to NCI	**-**	-
Total other comprehensive income for the year	**-**	-
Total comprehensive loss for the year attributable to the shareholders of the parent company	**(1,992)**	(312,602)
Total comprehensive loss for the year attributable to NCI	**(1,992)**	(312,602)
Total comprehensive loss for the year	**(3,984)**	(625,204)
Net cash flow used in operating activities	**(4,241)**	(2,567)
Net cash flow from financing activities	**3,494**	4,316
Net cash (outflow)/inflow	**(747)**	1,749

7.3 Interests in unconsolidated structured entities

The group has no interests in unconsolidated structured entities

Notes to the consolidated financial statements (continued)

8 Real estate rental income, net

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Rental income	**280,332**	556,559
Direct expenses	**(35,035)**	(52,174)
	245,297	504,385

9 Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company

Basic and diluted earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
Profit/(loss) for the year attributable to the shareholders of the parent company (KD)	**105,496**	(809,501)
Weighted average number of shares outstanding during the year	**72,479,452**	99,888,537
Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company	**1.46 Fils**	(8.10) Fils

10 Investment properties

	31 Dec. 2017 KD	31 Dec. 2016 KD
At 1 January	**8,171,917**	13,519,329
Additions	**-**	3,780
Proceeds from sale of investment properties	**(3,779,720)**	(3,973,696)
Loss on sale	**(20,280)**	(117,630)
Change in fair value	**7,000**	(1,280,527)
Foreign currency translation adjustment	**(42,945)**	20,661
	4,335,972	8,171,917

Investment properties were fair valued by independent valuers (note 20).

Notes to the consolidated financial statements (continued)

11 Available for sale investments

	31 Dec. 2017 KD	31 Dec. 2016 KD
Unquoted equity shares	**236,825**	236,825
	236,825	236,825

The investments in unquoted shares are carried at cost less impairment due to unpredictable nature of future cash flows and unavailability of financial information to arrive at a reliable measure of fair value.

12 Accounts receivable and other assets

	31 Dec. 2017 KD	31 Dec. 2016 KD
Accrued revenue	**88,245**	76,235
Receivable arising on sale of investment	**-**	32,371
Prepayments and other receivables	**13,902**	17,382
	102,147	125,988

The carrying values of the financial assets included above approximate their fair values and are due within one year. The accounts receivable and other assets have been reviewed for impairment which indicates no provision is required.

13 Short term deposit

This represents a short term deposit placed with a local Islamic financial institution carrying an average effective profit rate of 1.97% (2016: 2.06%) per annum and matures within one year from the financial position date.

14 Share capital

At the Extraordinary General Assembly meeting held on 24 April 2017, the shareholders of the parent company approved to reduce the share capital of the parent company from KD9,600,000 (represented by 96,600,000 shares of 100 fils each) to KD5,350,000 (represented by 53,500,000 shares of 100 fils each) by way of cash payment of KD4,250,000 to the shareholders (note 17.1). The Memorandum of Incorporation and Articles of Association of the parent company were amended accordingly. This amendment was registered in the commercial register of the Ministry of Commerce on 12 June 2017.

Consequently, the authorised, issued and fully paid up share capital of the parent company as of 31 December 2017 comprises of 53,500,000 shares of 100 fils each (31 December 2016: 96,600,000 shares of 100 fils each).

Notes to the consolidated financial statements (continued)

15 Reserves

In accordance with the Companies Law and the parent company's memorandum of incorporation and articles of association, 10% of the profit for the year before KFAS, Zakat and directors' remuneration is transferred to the legal reserve. The shareholders of the parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

Distribution of the legal reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount.

In accordance with the parent company's articles of association, 10% of the profit for the year before KFAS, Zakat and directors' remuneration is transferred to the voluntary reserve. Upon recommendation of the board of directors and approval of general assembly, the parent company may resolve to discontinue transfer to the voluntary reserve. There are no restrictions on distribution of voluntary reserve.

16 Accounts payable and other liabilities

	31 Dec. 2017 KD	31 Dec. 2016 KD
Accounts payable	**11,500**	11,489
Accruals and other liabilities	**498,356**	203,327
Payable on purchase of investment properties	**1,268,924**	4,895,163
	1,778,780	5,109,979

16.1 The balance due on purchase of investment properties is payable to a non-controlling shareholder of the subsidiary in Jordan for partly financing purchase of investment property (land). No profit is charged on this amount and is repayable on demand.

16.2 During the year, the shareholders of the Jordanian subsidiary approved to set-off the accumulated losses of JD16,687,526 (equivalent to KD7,092,349) of the subsidiary through their due to shareholders' balance as of 31 December 2016. Accordingly, the payable on purchase of investment properties which is due to the non-controlling interest was decreased by its share of the set-off.

17 General assembly of the shareholders

17.1 The annual general assembly of the shareholders held on 24 April 2017 approved the consolidated financial statements for the year ended 31 December 2016 without dividends.

Also, in the Extraordinary General Assembly meeting held on 24 April 2017, the shareholders of the parent company approved to reduce the parent company's share capital by KD4,250,000 which is in excess over the company's need. Reduction of the share capital shall be from KD9,600,000 so that the authorized and fully paid up share capital become KD5,350,000 divided into 53,500,000 shares of 100 Kuwaiti Fils each (note 14).

17.2 The Extraordinary General Assembly of the shareholders held on 23 March 2016 approved to authorize the board of directors of the parent company to sell all the parent company's assets gradually within a period of two financial years as from the financial year 2016 and use the proceeds to reduce the parent company's share capital.

Notes to the consolidated financial statements (continued)

18 Related party balances and transactions

These represent transactions made with related parties i.e. directors and major shareholders and companies of which they are principal shareholders. Management approves prices and terms of these transactions.

Balances and transactions with related parties included in the consolidated financial statements are as follows:

	31 Dec. 2017 KD	31 Dec. 2016 KD
Balances included in consolidated statement of financial position:		
Cash and cash equivalents (major shareholder)	**690,201**	308,157
Payable to non-controlling interests (note 16)	**1,268,924**	4,895,163

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Transactions included in consolidated statement of profit or loss:		
Murabaha income (major shareholder)	**1,953**	12,411
Key management compensation:		
Salaries and other short term benefits	**29,200**	44,800
End of service benefits	**2,550**	2,900
	31,750	47,700

19 Risk management objectives and policies

The group's activities expose it to variety of financial risks: market risk (including currency risk, profit rate risk and price risk), credit risk and liquidity risk.

The parent company's board of directors is ultimately responsible for the overall risk management and for approving risk strategies and principles. The group's risk management focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance. Long term financial investments are managed to generate lasting returns.

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the group is exposed are described below.

19.1 Market risk

a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The group mainly operates in Kuwait and the Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar and UAE Dirham. The group's financial position can be significantly affected by the movement in these currencies. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Notes to the consolidated financial statements (continued)

19 Risk management objectives and policies (continued)

19.1 Market risk (continued)

The group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	31 Dec. 2017 KD	31 Dec. 2016 KD
US Dollar	**246,372**	246,496
UAE Dirham	**30,846**	26,674
Others	**489**	23,953

The foreign currency sensitivity is determined based on US Dollars: 3% (2016: 3%), UAE Dirham 2% (2016: 2%) and other 5% (2016: 5%) increase or decrease in exchange rates. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

If the Kuwaiti Dinar had strengthened or weakened against the foreign currencies assuming the above sensitivity, then this would have the following impact on the results for the year:

	Results for the year	
	31 Dec. 2017 KD	31 Dec. 2016 KD
US Dollar	**± 7391**	± 7,395
UAE Dirham	**± 617**	± 533
Others	**± 24**	± 1,198

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk.

b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group is exposed to profit rate risk with respect to short term deposit. The risk is managed by the group by monitoring regularly to ensure positions are maintained within established limits.

The group does not have any off balance sheet financial instruments which are used to manage the profit rate risk.

The following table illustrates the sensitivity of the results for the year to a reasonable possible change in profit rates with effect from the beginning of the year. Based on observation of current market conditions it has been assumed that a reasonable possible change in the profit rates would be +1% and -1% (2016: +1% and -1%) for Kuwaiti Dinar profit rates. The calculation is based on the group's financial instruments held at each financial position date. All other variables are held constant.

There is no impact on group's equity. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

Notes to the consolidated financial statements (continued)

19 Risk management objectives and policies (continued)

19.1 Market risk (continued)

b) Profit rate risk (continued)

	31 Dec. 2017		31 Dec. 2016	
	+1%	**-1%**	+1%	-1%
	KD	**KD**	KD	KD
Results for the year	**37,780**	**(37,780)**	42,500	(42,500)

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss or available for sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. There have been no changes during the year in the method and assumptions used in preparing the sensitive analysis.

If equity prices had been 5% (2016: 5%) higher/lower the effect on the results for the year and equity would have been as follows:

	Results for the year		Equity	
	31 Dec. 2017	31 Dec. 2016	**31 Dec. 2017**	31 Dec. 2016
	KD	KD	**KD**	KD
Available for sale investments	**-**	-	**± 11,841**	± 11,841

19.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarized below:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Accounts receivable and other assets	**102,147**	125,988
Short term deposit	**3,778,000**	4,250,000
Bank balances	**725,196**	339,796
	4,605,343	4,715,784

Bank balances are maintained with high credit quality financial institutions. Management believes the net receivable balances are neither past due nor impaired.

Notes to the consolidated financial statements (continued)

19 Risk management objectives and policies (continued)

19.3 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 regular basis.

The table below summarises the maturity profile of the group's liabilities using undiscounted cash flows.

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
31 December 2017:					
Liabilities					
Accounts payable and other liabilities	**-**	**13,676**	**1,765,104**	**-**	**1,778,780**
	-	**13,676**	**1,765,104**	**-**	**1,778,780**
31 December 2016:					
Liabilities					
Accounts payable and other liabilities	-	23,181	5,086,798	-	5,109,979
	-	23,181	5,086,798	-	5,109,979

20 Fair value measurement

20.1 Fair value hierarchy

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20.2 Fair value measurement of financial instruments

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

Notes to the consolidated financial statements (continued)

20 Fair value measurement (continued)

	31 Dec. 2017 KD	31 Dec. 2016 KD
Financial assets:		
Loans and receivables at amortised cost:		
- Accounts receivable and other assets	**102,147**	125,988
- Cash and bank balances	**725,196**	339,796
- Short term deposit	**3,778,000**	4,250,000
Available for sale investments:		
Available for sale investments – at cost	**236,825**	236,825
	4,842,168	4,952,609
Financial liabilities:		
Financial liabilities at amortised cost:		
Accounts payable and other liabilities	**1,778,780**	5,109,979
	1,778,780	5,109,979

Management considers that the carrying amounts of loans and receivables and financial liabilities, which are stated at amortised cost, approximate their fair dues.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

20.3 Fair value measurement of non-financial assets

Investment properties were fair valued at 31 December 2017 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 10.

Description of significant unobservable inputs to valuation of non-financial assets:

Fair value of investment properties was determined using Mark to Market method, conducted by valuators considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

21 Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital of the group comprises of total equity excluding foreign currency translation reserves, amounting to KD7,315,208 (2016: KD11,459,788). The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the consolidated financial statements (continued)

22 Contingent liabilities

Contingent liabilities at 31 December 2017 in respect of outstanding letters of guarantee amounted to KD6,000 (2016: KD6,000).

23 Subsequent event

Subsequent to the reporting date, and in a meeting held on 6 March 2018, the board of directors of the parent company resolved to call for an extraordinary general assembly meeting to discuss the approval to reduce the parent company's share capital by KD3,750,000 which is in excess over the company's need. Reduction of the share capital shall be from KD5,350,000 so that the authorized and fully paid up share capital shall become KD1,600,000 divided into 16,000,000 shares of 100 Kuwaiti Fils each.