شركة الراية العالمية العقارية ش.م.ك

AL-RAYA GLOBAL REAL ESTATE CO. K.S.C.C

ANNUAL REPORT 2018

التقـــريـــــر السنـــــوي ٢٠١٨

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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 2018

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Independent auditor's report

To the shareholders of
Al Raya Global Real Estate Company – KSC (Closed)
Kuwait

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 2018, 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 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 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 16.2 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.

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.

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)

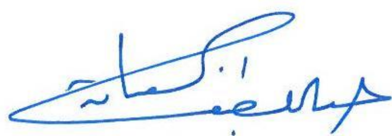
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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 2018 that might have had a material effect on the business or financial position of the parent Company



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

Kuwait
25 July 2019

Consolidated statement of profit or loss

	Notes	**Year ended 31 Dec. 2018 KD**	Year ended 31 Dec. 2017 KD
Revenue			
Real estate rental income, net	8	**90,773**	245,297
Gain/(loss) on sale of investment properties	9	**35,000**	(20,280)
Change in fair value of investment property	9	**(285,488)**	7,000
Gain on sale of previously fully impaired investments		**165,181**	-
Profit from murabaha deposits		**46,592**	62,743
Other income		**36,930**	13,143
		88,988	307,903
Expenses and other charges			
Staff costs		**(139,302)**	(168,155)
General and administrative expenses		**(86,109)**	(34,914)
Depreciation and amortisation		**(172)**	(391)
Foreign exchange (loss)/gain		**(320)**	568
		(225,903)	(202,892)
(Loss)/profit before provisions for contribution to KFAS, Zakat		**(136,915)**	105,011
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**-**	(963)
Provision for Zakat		**-**	(544)
(Loss)/profit for the year		**(136,915)**	103,504
Attributable to:			
Shareholders of the parent Company		**(46,539)**	105,496
Non-controlling interests		**(90,376)**	(1,992)
		(136,915)	103,504
Basic and diluted (loss)/earning per share attributable to the shareholders of the parent Company (Fils)	7	**(1.56)**	1.46

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. 2018 KD	Year ended 31 Dec. 2017 KD
(Loss)/profit for the year	**(136,915)**	103,504
Other comprehensive income:		
Items that will be reclassified subsequently to consolidated statement of profit or loss:		
Exchange differences arising on translation of foreign operations	**6,973**	37,336
Other comprehensive income for the year	**6,973**	37,336
Total comprehensive (loss)/income for the year	**(129,942)**	140,840
Attributable to:		
Shareholders of the Parent Company	**(39,301)**	82,814
Non-controlling interests	**(90,641)**	58,026
	(129,942)	140,840

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. 2018 KD	31 Dec. 2017 KD
Assets			
Non-current assets			
Furniture and equipment		**188**	140
Investment properties	9	**2,464,428**	4,335,972
Intangible assets		**-**	38
Available for sale investments		**-**	236,825
Investments at fair value through other comprehensive income	10	**236,825**	-
		2,701,441	4,572,975
Current assets			
Accounts receivable and other assets	11	**66,240**	102,147
Murabaha deposits	12	**1,800,000**	3,778,000
Cash and bank balances		**629,242**	725,195
		2,495,482	4,605,342
Total assets		**5,196,923**	9,178,317
Equity and liabilities			
Equity			
Share capital	13	**1,600,000**	5,350,000
Legal reserve	14	**344,798**	344,798
Voluntary reserve	14	**344,798**	344,798
Foreign currency translation reserve		**11,328**	4,090
Retained earnings		**1,229,149**	1,275,688
Equity attributable to the shareholders of the parent Company		**3,530,073**	7,319,374
Non-controlling interests		**(92,192)**	(1,551)
Total equity		**3,437,881**	7,317,823
Non-current liabilities			
Provision for employees' end of service benefits		**80,912**	81,714
		80,912	81,714
Current liabilities			
Accounts payable and other liabilities	15	**1,678,130**	1,778,780
		1,678,130	1,778,780
Total liabilities		**1,759,042**	1,860,494
Total equity and liabilities		**5,196,923**	9,178,317

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	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	KD	KD
Balance at 1 January 2018	**5,350,000**	**344,798**	**344,798**	**4,090**	**1,275,688**	**7,319,374**	**(1,551)**	**7,317,823**
Capital reduction (note 13)	**(3,750,000)**	**-**	**-**	**-**	**-**	**(3,750,000)**	**-**	**(3,750,000)**
Transactions with shareholders	**(3,750,000)**	**-**	**-**	**-**	**-**	**(3,750,000)**	**-**	**(3,750,000)**
Loss for the year	**-**	**-**	**-**	**-**	**(46,539)**	**(46,539)**	**(90,376)**	**(136,915)**
Other comprehensive loss	**-**	**-**	**-**	**7,238**	**-**	**7,238**	**(265)**	**6,973**
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**7,238**	**(46,539)**	**(39,301)**	**(90,641)**	**(129,942)**
Balance at 31 December 2018	**1,600,000**	**344,798**	**344,798**	**11,328**	**1,229,149**	**3,530,073**	**(92,192)**	**3,437,881**

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 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 13)	(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	-	-	-	-	-	-	-	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 cash flows

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
OPERATING ACTIVITIES		
(Loss)/profit before provisions for contribution to KFAS, Zakat	**(136,915)**	105,011
Adjustments for:		
Depreciation and amortisation	**172**	391
Provision for employees' end of service benefits	**11,304**	18,987
Change in fair value of investment properties	**285,573**	(7,000)
Loss on sale of investment properties	**(35,000)**	20,280
Murabaha and other income	**(46,592)**	(75,886)
Gain on sale of previously impaired investments	**(165,181)**	-
	(86,639)	61,783
Changes in operating assets and liabilities:		
Accounts receivable and other assets	**57,644**	33,652
Accounts payable and other liabilities	**18,690**	(23,526)
Employees' end of service benefits paid	**(12,106)**	(71,580)
Net cash (used in)/from operating activities	**(22,411)**	329
INVESTING ACTIVITIES		
Proceeds from sale of investment properties	**1,635,000**	3,779,720
Gain on sale of previously impaired investments	**(165,181)**	-
Additions for furniture and equipments	**(183)**	-
Murabaha and other income received	**24,855**	66,075
Net movement in short term deposit	**1,978,000**	472,000
Net cash from investing activities	**3,802,853**	4,317,795
FINANCING ACTIVITIES		
Dividend paid	**(7,664)**	(5,387)
Amounts paid to shareholders as a result of capital reduction	**(3,868,731)**	(3,927,338)
Net cash used in financing activities	**(3,876,395)**	(3,932,725)
Net (decrease)/increase in cash and bank balances	**(95,953)**	385,399
Cash and bank balances at the beginning of the year	**725,195**	339,796
Cash and bank balances at the end of the year	**629,242**	725,195

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 6.

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 25 July 2019 and are subject to the approval of the General Assembly of the shareholders.

2 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).

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies

3.1 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 2018 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IAS 40 Investment Property – Amendments	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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.

The main areas of impact are as follows:

- the classification and measurement of the financial assets are 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 is recognised on the 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 is no longer possible to measure equity investments at cost less impairment and all such investments are instead measured at fair value. Changes in fair value are 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 are 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 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 Fair Value Through Other Comprehensive Income (FVTOCI) are now 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 FVOCI are now recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets continues to be recognised in profit or loss.

Based on the analysis of the Group's financial assets and liabilities as at 1 January 2018 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:

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement:
Equity investments are to be measured at FVTPL as well as 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.

Accounts receivable 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.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

	IAS 39		IFRS 9	
	Classification	Carrying amount KD	Classification	Carrying amount KD
Financial assets				
Cash and bank balances	Loans and receivables	725,195	Amortised cost	725,195
Murabaha deposit	Loans and receivables	3,778,000	Amortised cost	3,778,000
Accounts receivable and other assets	Loans and receivables	96,286	Amortised cost	96,286
Equity securities – unquoted	Available for sale	236,825	FVTOCI	236,825
Total financial assets		4,836,306		4,836,306

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

Impairment:
IFRS 9 requires the Group to record expected credit losses (ECL) on all of its financial assets measured at amortised cost. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Under IFRS 9, the Group measures ECL as follows:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Group has applied simplified approach to impairment for accounts receivable and other assets as required or permitted under the standard. 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 debtors and the economic environment.
Management has reviewed its financial assets at amortised cost for any additional impairment and concluded that no additional impairment is required.

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

Summary of impact on application of IFRS 9:
As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement, and including impairment requirements. The information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Adjustments to the opening statement of financial position are detailed below:

	31 Dec. 2017 KD	Adjustments/ reclassification KD	1 Jan. 2018 KD
Assets			
Investments at fair value through other comprehensive income	-	236,825	236,825
Available for sale investments	236,825	(236,825)	-

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
  - licensing
  - breakage
  - non-refundable upfront fees, and
  - consignment and bill-and-hold arrangements.

Adoption of this standard did not have a significant impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Group (continued)

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.

Adoption of these amendments did not 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.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

3.2 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 16 Leases	1 January 2019
IAS 1 and IAS 8 - Amendments	1 January 2020

IFRS 16 Leases

IFRS 16 will replace IAS 17 and the 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.

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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.

IAS 1 and IAS 8 – Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

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.

4 Significant accounting policies

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

4.1 Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for investment at fair value through other comprehensive income 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.

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".

4.2 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries (see note 6).

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.2 Basis of consolidation (continued)

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.

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.

4.3 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.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.4 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers service to a customer.

The Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts, if any, as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable, if any, in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4.5 Rental income

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

4.6 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.

4.7 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.

4.8 Taxation

4.8.1 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.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.8 Taxation (continued)

4.8.2 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.

Under the Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

4.9 Financial instruments

4.9.1 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. Subsequent measurement of financial assets and financial liabilities are described below.

A financial asset (or, where applicable a part of financial asset or part of Group of similar financial assets) is primarily 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.

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.

4.9.2 Classification of financial assets

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

- financial assets at amortised cost
- financial assets at fair value through other comprehensive income (FVTOCI)

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.9 Financial instruments (continued)

4.9.2 Classification of financial assets (continued)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see note 4.9.3 below); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4.9.3 Subsequent measurement of financial assets

a) *Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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.

The Group's financial assets at amortised cost comprise of the following:

Accounts receivable and other assets

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. Bad debts are written off as incurred.

Receivables which are not categorised under any of the above are classified as "other assets".

Cash and bank balances

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

b) *Financial assets at FVTOCI*

The Group's financial assets at FVTOCI comprise investment in equity shares. These represent investments in equity shares of various companies and include both quoted and unquoted.

On initial recognition, the Group may make an irrevocable election (on an instrument - by - instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.9 Financial instruments (continued)

4.9.3 Subsequent measurement of financial assets (continued)

b) Financial assets at FVTOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short - term profit - taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised
in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity on de-recognition.

4.9.4 Impairment of financial assets

All financial assets except for those at FVTPL and equity investments at FVTOCI 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.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVTOCI.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the
magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward - looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Group always recognises lifetime ECL for accounts receivable and other assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.9 Financial instruments (continued)

4.9.4 Impairment of financial assets (continued)

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

4.9.5 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:

- ***Financial liabilities at amortised cost***

These are stated using effective interest rate method. Accounts payable and other liabilities are classified as financial liabilities other than at FVTPL.

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.

4.10 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 interest rate.

4.11 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.

4.12 Offsetting of financial instruments

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

4.13 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.

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.13 Fair value of financial instruments (continued)

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.

4.14 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 the asset or each cash-generating unit and determines a suitable interest 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 effect of future reorganisations and assets enhancements. Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment loss is charged pro rata to the 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.

4.15 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 re-measured at fair value on an individual basis based on valuations by independent real estate valuers and are included in the consolidated statement of financial position. Changes in fair value are taken to the consolidated statement of profit or loss.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

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, plant and equipment up to the date of change in use.

4.16 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The Group depreciates its property and equipment using the straight-line method at rates sufficient to write off the assets over their estimated useful economic lives.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.16 Property and equipment (continued)
When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss and other comprehensive income.

4.17 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 are 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.

4.18 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.

4.19 Foreign currency translation

4.19.1 Functional and presentation currency
The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the Parent Company. 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.

Notes to the consolidated financial statements (continued)

4 Summary of significant accounting policies (continued)

4.19 Foreign currency translation (continued)

4.19.2 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 re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in 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. Translation difference on non-monetary asset classified as, "fair value through profit or loss" is reported as part of the fair value gain or loss in the consolidated statement of profit or loss and "available for sale" are reported as part of the cumulative change in fair value reserve within other comprehensive income.

4.19.3 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 profit or loss and are recognised as part of the gain or loss on disposal.

4.20 End of service benefits
The Parent Company and its local subsidiaries 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, in addition to the end of service benefits, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries.

4.21 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.

5 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.

Notes to the consolidated financial statements (continued)

5 Significant management judgements and estimation uncertainty (continued)

5.1 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:

5.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.9). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.1.2 Judgements in determining the timing of satisfaction of performance obligations

The determination of the whether or not performance obligation criterial set out in IFRS 15 relating to transfer of control of goods to customers has been satisfied requires significant judgement.

5.1.3 Fair values of assets and liabilities acquired

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

5.1.4 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.

5.1.5 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value.

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

5.2 Estimation 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.

5.2.1 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Notes to the consolidated financial statements (continued)

5 Significant management judgements and estimation uncertainty (continued)

5.2 Estimation uncertainty (continued)

5.2.1 Impairment of financial assets (continued)
An estimate of the collectible amount of accounts receivable 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.

5.2.2 Fair value of financial instruments
Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. 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.

5.3 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 Subsidiaries

6.1 Details of the Group's consolidated subsidiaries which are directly owned by the Parent Company at the end of the reporting period are as follows:

	Country of incorporation	Voting capital held %		Principal activities
		31 Dec. 2018	31 Dec. 2017	
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

6.2 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. 2018 KD	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Bait Al-Raya Real Estate Development Company-WLL	**50%**	50%	**(90,376)**	(1,992)	**(92,192)**	(1,551)

No dividends were paid to the NCI during the years 2018 and 2017.

Notes to the consolidated financial statements (continued)

6 Subsidiaries (continued)

6.2 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. 2018 KD	31 Dec. 2017 KD
Non-current assets	**2,373,297**	2,537,841
Current assets	**1,474**	1,686
Total assets	**2,374,771**	2,539,527
Non-current liabilities	**2,559,154**	2,542,628
Total liabilities	**2,559,154**	2,542,628
Equity attributable to the shareholders of the parent Company	**(92,192)**	(1,551)
Non-controlling interests	**(92,192)**	(1,551)

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Revenue	**-**	-
Loss for the year attributable to the shareholders of the parent Company	**(90,376)**	(1,992)
Loss for the year attributable to NCI	**(90,376)**	(1,992)
Loss for the year	**(180,752)**	(3,984)
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	**(90,376)**	(1,992)
Total comprehensive loss for the year attributable to NCI	**(90,376)**	(1,992)
Total comprehensive loss for the year	**(180,752)**	(3,984)

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Net cash flow used in operating activities	**(2,698)**	(4,241)
Net cash flow from financing activities	**2,477**	3,494
Net cash outflow	**(221)**	(747)

6.3 Interests in unconsolidated structured entities

The Group has no interests in unconsolidated structured entities

Notes to the consolidated financial statements (continued)

7 Basic and diluted (loss)/earnings per share

(Loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to the owners of the Parent Company by the weighted average number of ordinary shares outstanding during the year as follows:

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
(Loss)/profit for the year attributable to the shareholders of the parent Company (KD)	**(46,539)**	105,496
Weighted average number of shares outstanding during the year	**29,767,123**	72,479,452
Basic and diluted (loss)/earnings per share attributable to the shareholders of the parent Company	**(1.56) Fils**	1.46 Fils

8 Real estate rental income, net

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Rental income	**108,610**	280,332
Direct expenses	**(17,837)**	(35,035)
	90,773	245,297

9 Investment properties

	31 Dec. 2018 KD	31 Dec. 2017 KD
At 1 January	**4,335,972**	8,171,917
Proceeds from sale of investment properties	**(1,635,000)**	(3,779,720)
Gain/ (loss) on sale	**35,000**	(20,280)
Change in fair value	**(285,488)**	7,000
Foreign currency translation adjustment	**13,944**	(42,945)
	2,464,428	4,335,972

Investment properties were fair valued by independent valuers (note 18.3).

During the year, Group sold a local property for a total consideration of KD1,635,000 realizing a net gain of KD35,000.

Subsequent to the reporting date, the Group sold its investments property located in Jordan for a total consideration of JD5,962,194 (equivalent to KD2,549,279) (refer note 22).

Notes to the consolidated financial statements (continued)

10 Investments at fair value through other comprehensive income

	31 Dec. 2018 KD	31 Dec. 2017 KD
Unquoted equity shares	**236,825**	-
	236,825	-

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the Company has elected to designate these investments in equity instruments as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these investments in statement of profit or loss would not be consistent with the Company strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

11 Accounts receivable and other assets

	31 Dec. 2018 KD	31 Dec. 2017 KD
Financial assets		
Accrued revenue	**84,783**	119,985
Refundable deposits	**7,012**	7,012
Staff receivables	**1,241**	991
Others	**3,094**	4,270
	96,130	132,258
Provision for doubtful debts	**(35,972)**	(35,972)
	60,158	96,286
Non-financial assets		
Prepaid expenses	**5,379**	5,155
Others	**703**	703
	6,082	5,858
	66,240	102,144

12 Murabaha deposits

This represents a short term deposit placed with a local Islamic financial institution carrying an average effective profit rate of 2.87 % (2017: 1.97%) per annum and matures within six months from the financial position date.

13 Share capital

At the Extraordinary General Assembly meeting held on 14 May 2018, the shareholders of the Parent Company approved to reduce the paid up share capital of the Parent Company from KD5,350,000 (represented by 53,500,000 shares of 100 fils each) to KD1,600,000 (represented by 16,000,000 shares of 100 fils each) (2017: from KD9,600,000 represented by 96,000,000 shares to KD5,350,000 represented by 53,350,000 shares) by way of cash payment of KD3,750,000 (2017: KD4,250,000) to the shareholders. 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 10 June 2018.

Notes to the consolidated financial statements (continued)

13 Share capital (continued)

Consequently, the authorised, issued and fully paid in cash share capital of the Parent Company as of 31 December 2018 comprises of 16,000,000 shares of 100 fils each and all shares paid in cash (31 December 2017: 53,500,000 shares of 100 fils each).

14 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.

15 Accounts payable and other liabilities

	31 Dec. 2018 KD	31 Dec. 2017 KD
Accounts payable	**10,108**	11,500
Accruals and other liabilities	**390,635**	498,356
Payable on purchase of investment properties*	**1,277,387**	1,268,924
	1,678,130	1,778,780

* 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.

Subsequent to the reporting date, the Group settled the balance due upon sale of the investment property located in Jordan (refer note 22).

16 General assembly of the shareholders

16.1 The annual general assembly of the shareholders held on 14 May 2018 approved the consolidated financial statements for the year ended 31 December 2017 without dividends, and to pay the board of directors an amount of KD50,000 as remuneration to its members for the year ended 31 December 2017, which was recognised in the interim condensed consolidated statement of profit or loss for the current period under "general and administrative expenses".

16.2 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)

17 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. 2018 KD	31 Dec. 2017 KD
Balances included in consolidated statement of financial position:		
Cash and bank balances (major shareholder)	**623,173**	690,201
Payable to non-controlling interests (note 15)	**1,277,387**	1,268,924

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Transactions included in consolidated statement of profit or loss:		
Murabaha income (major shareholder)	**-**	1,953
Key management compensation:		
Salaries and other short term benefits	**53,350**	29,200
End of service benefits	**2,550**	2,550
	55,900	31,750

18 Fair value measurement

18.1 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).

Notes to the consolidated financial statements (continued)

18 Fair value measurement (continued)

18.2 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:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Financial assets:		
At amortised cost:		
Accounts receivable and other assets	**60,158**	96,286
Cash and bank balances	**629,242**	725,196
Muarabaha deposit	**1,800,000**	3,778,000
At fair value:		
Investments at fair value through other comprehensive income	**236,825**	-
Available for sale investments:		
At cost	**-**	236,825
	2,726,225	**4,836,307**
Financial liabilities:		
At amortised cost:		
Accounts payable and other liabilities	**1,678,130**	1,778,780
	1,678,130	1,778,780

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.

18.3 Fair value measurement of non-financial assets

Investment properties were fair valued at 31 December 2018 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 9.

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.

19 Risk management objectives and policies

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

The Parent Company's Board of Directors sets out policies for reducing the risks discussed below.

The Group does not use derivative financial instruments.

Notes to the consolidated financial statements (continued)

19 Risk management objectives and policies (continued)

The most significant financial risks to which the Group is exposed to 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.

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
US Dollar	**237,019**	246,372
UAE Dirham	**1,709**	30,846
Others	**495**	489

The foreign currency sensitivity is determined based on US Dollars: 3% (2017: 3%), UAE Dirham 2% (2017: 2%) and other 5% (2017: 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. 2018 KD	31 Dec. 2017 KD
US Dollar	**± 7,111**	± 7,391
UAE Dirham	**± 34**	± 617
Others	**± 25**	± 24

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.

Notes to the consolidated financial statements (continued)

19 Risk management objectives and policies (continued)

19.1 Market risk (continued)

b) Profit rate risk (continued)

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% (2017: +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.

	31 Dec. 2018		31 Dec. 2017	
	+1% KD	**-1% KD**	+1% KD	-1% KD
Results for the year	**18,000**	**(18,000)**	37,780	(37,780)

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% (2017: 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. 2018 KD	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Available for sale investments	**-**	-	**-**	± 11,841
Investments at FVTOCI	**-**	-	**± 11,841**	-

d) 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. 2018 KD	31 Dec. 2017 KD
Accounts receivable and other assets	**60,185**	96,286
Short term deposit	**1,800,000**	3,778,000
Bank balances	**629,242**	725,196
	2,489,427	4,599,482

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)

19.2 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 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 2018:					
Liabilities					
Accounts payable and other liabilities	**-**	**13,432**	**1,664,698**	**-**	**1,678,130**
	-	**13,432**	**1,664,698**	**-**	**1,678,130**
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

20 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 KD 3,448,592 (2017: KD7,315,208). 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.

21 Contingent liabilities

Contingent liabilities at 31 December 2018 in respect of outstanding letters of guarantee amounted to KD6,000 (2017: KD6,000).

22 Subsequent event

Subsequent to the reporting date, on 20 June 2019, the Group disposed of its investment property located in Jordan for a total cash consideration of JD5,962,194 (equivalent to KD2,549,279) realising a gain of JD409,704 (equivalent to KD175,178) (see note 9). Further, the Group utilised an amount equivalent to KD1,195,812 of the sale proceeds to settle the balance due to the non-controlling shareholder referred to in note 15.