



**BAKER TILLY  
KUWAIT**

Audit, tax and consulting

**Aqar Real Estate Investments Company  
Kuwait Shareholding Company (Public)  
State of Kuwait**

**Financial Statements for  
The Financial Year ended 31 December 2018  
With  
Independent Auditor's Report**

Aqar Real Estate Investments Company  
Kuwait Shareholding Company (Public)  
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Financial Statements for  
The Financial Year ended 31 December 2018  
With  
Independent Auditor's Report

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## **Independent Auditor's Report**

To Shareholders of  
Aqar Real Estate Investments Company – K.S.C. (Public)

### **Report on Audit of the Financial Statements**

We have audited the financial statements of Aqar Real Estate Investments Company – K.S.C. (Public) "the Company", which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We identified the following key audit matter.

#### **Valuation of investment properties**

As at 31 December 2018, the investment properties were KD 20,881,421 equal to 70.4% of the total assets. Disclosures related to the investment properties are set out in Notes 3.3, 5 and 11 to the financial statements.

The valuation of the properties is considered a significant matter, as it requires exercising significant estimates and judgment since the existence of differences in the valuation of each property would result in material misstatements. Therefore, this requires audit focus on this item.

The Company had the investment properties valued by licensed independent valuers who are not related to the Company. Such valuers have the qualifications and experience required to perform the valuations in the markets where the Company operates.

For the purpose of estimating the fair value of investment properties, the valuers used different valuation methods and techniques such as sales comparison approach and income capitalization taking into account the nature and usage of investment properties.

In the course of our audit, we tested the appropriateness of valuation methods and approaches and the input used for this purpose. We further focused on the adequacy of the disclosures on the valuation of investment properties.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. The Company's 2018 annual report is expected to be made available to us after the date of auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when made available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the annual report, we conclude that there is a material misstatement therein, we are required to report that fact to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibility for the Audit of Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Partners 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

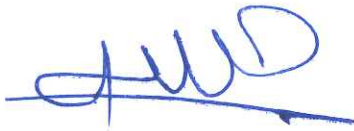
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

### Report on the Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these financial statements, are consistent therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, and its Executive Regulations, and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and its Executive Regulations, or of the Company's Memorandum of Incorporation and Articles of association, as amended, have occurred during the financial year ended 31 December 2018 that might have had a material effect on the business of the Company or on its financial position.



**Mohammed Hamad Al Sultan**

License No. 100-A

Mohammed Al Sultan and Partners

Independent Member of Baker Tilly International

State of Kuwait, 24 January 2019



**Statement of Financial Position as at 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

|   | Note | 2018              | 2017<br>(Consolidated) |
|---|------|-------------------|------------------------|
| <b>Assets</b>   |      |                   |                        |
| Cash and cash equivalents   | 6    | 2,052,470         | 4,551,752              |
| Other debit balances  | 7    | 178,488           | 340,645                |
| Financial assets at fair value through other comprehensive income | 8    | 4,944,174         | -                      |
| Financial assets available for sale                               | 9    | -                 | 972,282                |
| Investment in an associate  | 10   | 1,589,438         | 1,589,438              |
| Investment properties   | 11   | 20,881,421        | 23,772,829             |
| Property and equipment  |      | 2,177             | 1,517                  |
| <b>Total assets</b>   |      | <b>29,648,168</b> | <b>31,228,463</b>      |
| <b>Equity and liabilities</b>                                     |      |                   |                        |
| <b>Liabilities</b>  |      |                   |                        |
| Term loans  | 12   | 850,000           | 2,422,295              |
| Accounts payable and other credit balances                        | 13   | 588,207           | 548,479                |
| Provision for end of service indemnity                            | 14   | 134,534           | 129,171                |
| <b>Total liabilities</b>  |      | <b>1,572,741</b>  | <b>3,099,945</b>       |
| <b>Equity</b>   |      |                   |                        |
| Share capital   | 15   | 23,425,000        | 23,425,000             |
| Share premium   |      | 227,567           | 227,567                |
| Treasury shares   | 16   | (1,861,595)       | (1,861,595)            |
| Treasury shares reserve   |      | 8,523             | 8,523                  |
| Statutory reserve   | 17   | 1,794,539         | 1,664,392              |
| Voluntary reserve   | 18   | 1,794,539         | 1,664,392              |
| Change in fair value reserve through other comprehensive income   |      | 7,624             | -                      |
| Retained earnings   |      | 2,679,230         | 2,999,181              |
| <b>Equity attributable to the Parent Company's shareholders</b>   |      | <b>28,075,427</b> | <b>28,127,460</b>      |
| Non-controlling interests   |      | -                 | 1,058                  |
| <b>Total equity</b>   |      | <b>28,075,427</b> | <b>28,128,518</b>      |
| <b>Total liabilities and equity</b>                               |      | <b>29,648,168</b> | <b>31,228,463</b>      |



**Bader Saleh Al-Essa**  
Chairman



**Mousa Ali Abu Taleb**  
Vice Chairman & CEO

**Statement of Profit or Loss and Other Comprehensive Income**  
**For the financial year ended 31 December 2018**
*(All amounts are shown in Kuwaiti Dinar)*

|   | Note | 2018      | 2017      |
|---|------|-----------|-----------|
| <b>Continued operations</b>   |      |           |           |
| Properties rental income  |      | 1,438,345 | 1,477,087 |
| Properties operating costs  |      | (140,962) | (135,981) |
| Net rental income from Properties   |      | 1,297,383 | 1,341,106 |
| Realized income from sale of an associate   |      | -         | 581,074   |
| Company's share in an associate's results   |      | -         | 202,339   |
| Change in fair value of investment properties   | 11   | 152,592   | 262,609   |
| Net operating profit  |      | 1,449,975 | 2,387,128 |
| Impairment of available for sale investments  |      | -         | (257,429) |
| Other income  |      | 16,225    | 16,943    |
| Interest income   |      | 65,389    | 30,661    |
| Cash dividends  |      | 132,725   | 126,900   |
| Depreciation  |      | (827)     | (878)     |
| General and administrative expenses   | 20   | (416,618) | (423,211) |
| Finance charges   |      | (88,214)  | (150,791) |
| (Loss) / gain on foreign currency exchange differences  |      | (149,673) | 31,411    |
| Profit for the year from continued operations before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax, Zakat and BOD's remuneration |      | 1,008,982 | 1,760,734 |
| <b>Discontinued operations</b>  |      |           |           |
| Profit for the year from discontinued operations  | 21   | 292,490   | 115,910   |
| Profit for the year before contribution to KFAS, National Labor Support Tax, Zakat and BOD's remuneration   |      | 1,301,472 | 1,876,644 |
| Contribution to KFAS  |      | (11,713)  | (14,866)  |
| National Labor Support Tax  |      | (32,956)  | (48,311)  |
| Zakat   |      | (12,832)  | (16,032)  |
| BOD's remuneration  |      | (30,000)  | (35,000)  |
| Net profit for the year   |      | 1,213,971 | 1,762,435 |
| Attributable to:  |      |           |           |
| Parent Company's shareholders   |      | 1,213,901 | 1,762,406 |
| Non-controlling interests   |      | 70        | 29        |
| Net profit for the year   |      | 1,213,971 | 1,762,435 |
| Earnings per share (Fils)   | 22   | 5.73      | 8.31      |
| Earnings per share from continued operations (Fils)   | 22   | 4.35      | 7.77      |
| Earnings per share from discontinued operations (Fils)  | 22   | 1.38      | 0.54      |
| Other comprehensive income for the year   |      | 7,624     | -         |
| Change in fair value for financial assets at fair value through other comprehensive income  |      |           |           |
| Total comprehensive income for the year   |      | 1,221,595 | 1,762,435 |
| Attributable to:  |      |           |           |
| Parent Company's shareholders   |      | 1,221,525 | 1,762,406 |
| Non-controlling interests   |      | 70        | 29        |
| Net profit for the year   |      | 1,221,595 | 1,762,435 |

The accompanying notes on pages 5 to 33 form an integral part of these financial statements.



**Statement of Changes in Equity for the financial year ended 31 December 2018***(All amounts are shown in Kuwaiti Dinar)*

|   | Share capital | Share premium | Treasury shares | Treasury shares reserve | Statutory reserve | Voluntary reserve | Change in fair value reserve through other comprehensive income | Retained earnings | Subtotal    | Non-controlling interests | Total equity |
|---|---------------|---------------|-----------------|-------------------------|-------------------|-------------------|---|-------------------|-------------|---------------------------|--------------|
| Balance at 31 December 2016 (consolidated)                  | 23,425,000    | 227,567       | (1,861,595)     | 8,523                   | 1,476,730         | 1,476,730         | -   | 2,883,910         | 27,636,865  | 1,125                     | 27,637,990   |
| Cash dividends (Note 23)                                    | -             | -             | -               | -                       | -                 | -                 | -   | (1,271,811)       | (1,271,811) | -                         | (1,271,811)  |
| Net profit for the year                                     | -             | -             | -               | -                       | -                 | -                 | -   | 1,762,406         | 1,762,406   | 29                        | 1,762,435    |
| Minority interests' share in dividends:                     | -             | -             | -               | -                       | -                 | -                 | -   | -                 | -           | (96)                      | (96)         |
| Transferred to reserves                                     | -             | -             | -               | -                       | 187,662           | 187,662           | -   | (375,324)         | -           | -                         | -            |
| Balance at 31 December 2017 (consolidated)                  | 23,425,000    | 227,567       | (1,861,595)     | 8,523                   | 1,664,392         | 1,664,392         | -   | 2,999,181         | 28,127,460  | 1,058                     | 28,128,518   |
| Impact on IFRS 9 adoption (Note 2.3.2)                      | -             | -             | -               | -                       | -                 | -                 | -   | (1,747)           | (1,747)     | -                         | (1,747)      |
| Balance at 1 January 2018 (consolidated)                    | 23,425,000    | 227,567       | (1,861,595)     | 8,523                   | 1,664,392         | 1,664,392         | -   | 2,997,434         | 28,125,713  | 1,058                     | 28,126,771   |
| Cash dividends (Note 23)                                    | -             | -             | -               | -                       | -                 | -                 | -   | (1,271,811)       | (1,271,811) | -                         | (1,271,811)  |
| Net profit for the year                                     | -             | -             | -               | -                       | -                 | -                 | -   | 1,213,901         | 1,213,901   | 70                        | 1,213,971    |
| Total items of other comprehensive income for the year      | -             | -             | -               | -                       | -                 | -                 | 7,624   | -                 | 7,624       | -                         | 7,624        |
| Minority interests' share in dividends:                     | -             | -             | -               | -                       | -                 | -                 | -   | -                 | -           | (24)                      | (24)         |
| Impact of disposal of a share of investment in a subsidiary | -             | -             | -               | -                       | -                 | -                 | -   | -                 | -           | -                         | -            |
| Transferred to reserves                                     | -             | -             | -               | -                       | 130,147           | 130,147           | -   | (260,294)         | -           | (1,104)                   | (1,104)      |
| Balance at 31 December 2018                                 | 23,425,000    | 227,567       | (1,861,595)     | 8,523                   | 1,794,539         | 1,794,539         | 7,624   | 2,679,230         | 28,075,427  | -                         | 28,075,427   |

The accompanying notes on pages 5 to 33 form an integral part of these financial statements.

**Statement of Cash Flows for the financial year ended 31 December 2018***(All amounts are shown in Kuwaiti Dinar)*

|  | 2018        | 2017        |
|--|-------------|-------------|
| <b>Cash flows from operating activities:</b>   |             |             |
| Net profit for the year from continued operations                                      | 921,481     | 1,646,525   |
| Net profit for the year from discontinued operations                                   | 292,490     | 115,910     |
| Net profit for the year  | 1,213,971   | 1,762,435   |
| Adjustments:   |             |             |
| Company's share in an associate's results  | -           | (202,339)   |
| Change in fair value of investment properties  | (152,592)   | (176,609)   |
| Realized income on sale of an associate  | -           | (581,074)   |
| Impairment of available for sale investments   | -           | 257,429     |
| Interest income  | (67,266)    | (37,494)    |
| Cash dividends   | (132,725)   | (126,900)   |
| Realized profits on disposal of investment properties                                  | (246,000)   | -           |
| Depreciation   | 835         | 878         |
| Finance charges  | 88,214      | 150,791     |
| Loss/ (Profit) of foreign exchange differences   | 149,673     | (31,411)    |
| Provision for end of service indemnity   | 19,050      | 55,819      |
|  | 873,160     | 1,071,525   |
| Change in operating assets and liabilities   |             |             |
| Other debit balances   | 165,119     | (62,182)    |
| Accounts payable and other credit balances   | 121,312     | (171,430)   |
| Paid for purchase of investment properties   | (660,000)   | (153,538)   |
| Proceeds from disposal of investment properties  | 3,950,000   | -           |
| National labor support tax paid  | (48,311)    | -           |
| Zakat paid   | (16,032)    | -           |
| BOD's remuneration paid  | (35,000)    | -           |
| Net cash generated from operating activities   | 4,350,248   | 684,375     |
| <b>Cash flows from investing activities:</b>   |             |             |
| Interest income received   | 67,266      | 37,494      |
| Paid for purchase of available for sale investment                                     | -           | (25,465)    |
| Paid for purchase of financial assets at fair value through other comprehensive income | (4,118,649) | -           |
| Paid for purchase of share in an associate   | -           | (1,589,438) |
| Proceeds from sale of share in an associate  | -           | 3,085,394   |
| Dividends received from an associate   | -           | 245,000     |
| Cash dividends received from available for sale investments                            | 132,725     | -           |
| Paid for purchase of property and equipment  | (1,495)     | (702)       |
| Net cash (used in) / generated from investing activities                               | (3,920,153) | 1,752,283   |
| <b>Cash flows from financing activities:</b>   |             |             |
| Net movement in term loans   | (1,572,295) | (1,020,888) |
| Finance charges paid   | (88,214)    | (150,791)   |
| Dividends paid   | (1,268,868) | (1,245,089) |
| Net movement in non-controlling interests  | -           | (96)        |
| Net cash used in financing activities  | (2,929,377) | (2,416,864) |
| Net (decrease) / increase in cash and cash equivalents                                 | (2,499,282) | 19,794      |
| Cash and cash equivalents at the beginning of the year                                 | 4,551,752   | 4,531,958   |
| Cash and cash equivalents at the beginning of the year (Note 6)                        | 2,052,470   | 4,551,752   |

The accompanying notes on pages 5 to 33 form an integral part of these financial statements.

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**1. Incorporation and activity**

Aqar Real Estate Investments Company - K.S.C. (Public) "the Company" (formerly known as Al Ahlia Kuwaiti Real Estate Company - K.S.C. (Closed)) is a Kuwaiti Public Shareholding Company registered in State of Kuwait. The Company was incorporated under Memorandum of Incorporation No. 403/ Volume 1 dated 9 October 1997 and its subsequent amendments, the last of which is notated in the commercial registry under No. 645 dated 15 December 2014.

The Company is listed on the Kuwait Boursa on 11 April 2005.

The main objectives for which the Company is incorporated are:

- All real estate activities including purchasing, acquiring lands and properties for sale in its original condition or after splitting the same, lease, development or trading purposes;
- Renting and leasing lands and properties individually or in participation with third parties;
- Establishing buildings and real estate projects, residential and commercial complexes, private and public parking lots and implementing those activities directly or through third parties. The Company has the right to manage, lease, sell the same in cash or in installments, and carry out legal dispositions in connection therewith;
- Managing third parties' properties and investing the same for their account or for the Company's account;
- Conducting economic, technical and engineering studies and consultations related to real estate's business and private and public real estate projects of all kinds and all related activities for its own or for third parties' account;
- Utilizing surplus funds available with the Company by investing the same in financial portfolios managed by specialized companies;
- Acquiring, purchasing and selling shares and bonds of real estate companies for the benefit of the Company only inside and outside State of Kuwait.
- Acquiring and managing hotels, health clubs and touristic utilities and renting and leasing them.
- Performing maintenance works related to buildings and real estate owned by the Company, including maintenance work, execution of civil, mechanical, electrical, elevators, and air conditioning works to ensure the protection and safety of buildings.
- Managing, operating, investing, renting and leasing hotels, health clubs, motels, hospitality houses, rest houses, parks, gardens, exhibitions, restaurants, cafeterias, housing complexes, touristic and health resorts, entertainment and sport projects and shops at all levels including all original and auxiliary services and attached facilities along with other necessary services.
- Organizing the real estate exhibitions related to Company's real estate projects in accordance with the Ministry's rules.
- Establishing real estate auctions; in accordance with the Ministry's rules.
- Establishing and managing real estate investments fund (after approval of Central Bank of Kuwait).
- Importing building materials related to Company's objectives after getting necessary license.
- Direct contributing in the infrastructure of districts, residential, commercial and environmental industrial projects through Build Operate and Transfer System (BOT), and managing real estate utilities through (BOT) system.
- Obtaining agencies for all companies related to Company's activities such as hotels, parks, buildings materials and supplies for all of them.

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**1. Incorporation and activity (continued)**

The Company may carry on the above-mentioned activities inside State of Kuwait or abroad on its own or as an agent for other parties. The Company may have an interest or in any way associate itself with other entities engaged in similar activities or that may assist the Company in achieving its objectives in State of Kuwait or abroad. The Company may establish, participate in, acquire these institutions, or have them affiliated to it.

The Company is registered in the commercial registry under. No.69418 dated 19 August 2003.

The Company's registered address is: P.O. Box 20017 - Safat 13061, State of Kuwait.

The Company's Board of Directors authorized the financial statements for issue on 24 January 2019. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

**2. Basis of preparation and significant accounting policies**

**2.1 Basis of preparation**

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs). These financial statements are prepared under the historical cost convention except for available for sale investments and investment properties that were re-measured at fair value as set out in the accounting policies below:

**2.2 Application of new and amended International Financial Reporting Standards**

• **New standards and interpretations currently effective**

The accounting policies applied are consistent with those used in the previous year, except for changes resulting from application of some new and amended IFRSs at 1 January 2018 related to the Company as follows:

IFRS 9 – Financial Instruments

This Standard, which is effective on or after 1 January 2018, replaces IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 specifies how to classify and measure the financial instruments and includes the "expected credit loss" model for calculating impairment of financial assets, and new general hedge accounting requirements. The guidance on recognition and de-recognition of financial instruments set out in IAS 39 will remain unchanged.

IFRS 15 Revenue from Contracts with Customers

This Standard is effective for annual periods beginning on or after 1 January 2018, and provides a comprehensive framework for determining revenue recognition, volume and timing of recognition.

IFRS 15 replaces the following standards and interpretations when adopted:

- IAS 18: Revenue
- IAS 11: Construction Contracts
- IFRIC 13: Customer Loyalty Programs
- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 18: Transfers of Assets from Customers
- SIC-31: Revenue - Barter Transactions Involving Advertising Services

Certain other amendments and interpretations are adopted for the first time in 2018 but have no impact on the Company's financial statements. The Company did not adopt the early application of any standards, interpretations or amendments that have been issued but not yet effective.

**2. Basis of preparation and significant accounting policies (continued)**

**2.2 Application of new and amended International Financial Reporting Standards (continued)**

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations are effective for annual periods beginning on or after 1 January 2018 and looks at what exchange rate to use for translation of assets, upon initial recognition, expenses or income (or part thereof) related to de-recognition of non-monetary assets or non-monetary liabilities arising of the advance consideration. The transaction date is the date on which an entity initially recognizes the non-monetary assets or non-monetary liabilities arising from an advance consideration. The entity should determine transaction date for each payment or receipt of advance consideration if there are multiple payments or advance considerations.

Amendments to IAS 28 - Investment in Associates and Joint Ventures

The amendments explain that:

- (a) An entity that is a venture capital organization, or any other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- (b) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

Amendments to IAS 40 - Transfers of Investment Property

The amendments are effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Certain other amendments and interpretations are adopted for the first time in 2018 but have no impact on the Company's financial statements. The Company did not adopt the early application of any standards, interpretations or amendments that have been issued but not yet effective.

• **Standards and interpretations issued but not effective**

The following new and amended standards were issued by the International Accounting Standards Board (IASB) and were not adopted yet by the Company.

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after 1 January 2019 and replaces IAS 17 "Leases". The new standard does not significantly change the accounting for leases for lessors and requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Otherwise, accounting for leases in accordance with IFRS 16 has not changed substantially from IAS 17.

**2. Basis of preparation and significant accounting policies (continued)**

**2.2 Application of new and amended International Financial Reporting Standards (continued)**

IFRS 17 - Insurance Contracts

This Standard is effective for annual periods beginning on or after 1 January 2022 and supersedes IFRS 4 Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of issuers, and certain guarantees and financial instruments with optional participation features. The IFRS 17 is mainly based on the general model and is complemented by:

- (a) Specific adaption of contracts with participation feature (variable fee method).
- (b) Simplified method (premium allocation method) mainly for short-term contracts.

Early application is allowed provided that the Company applies IFRS 9 and IFRS 15 on or before the date that IFRS 17 was first applied.

Amendments to IFRS 9: Prepayment features with Negative Compensation

In accordance with IFRS 9, a debt instrument can be measured at amortized cost or fair value through other comprehensive income, provided that the contractual cash flows are solely payments of the principal and interest on amount due from the principal outstanding (SPPI criteria) and retain the instrument within the appropriate business model for the purpose of classification. The amendments to IFRS 9 indicate that a financial asset passes SPPI test regardless of any event or circumstance that leads to the early termination of the contract and regardless of which party pays or receives reasonable compensation for early termination of the contract. The amendments should be applied retroactively and effective from 1 January 2019 with early application allowed.

Amendments to IAS 28: Long-term Investments in Associates and Joint Ventures (JV)

The amendments clarify that an entity applies IFRS 9 to long-term investments in an associate or joint venture that does not qualify for equity method, but, its essence, form part of net investment in the associate or the joint venture company (long-term investments). This classification is appropriate because it implies that the expected credit loss model in IFRS 9 applies to those long-term investments.

The amendments also clarified that when applying IFRS 9, the Company does not take into account any losses of the associate or the joint venture company or impairment losses of the net investment that are recognized as the net investment in the associate or the joint venture company as a result of the application of IAS 28 Investments in Associates and Joint Ventures. The amendments should be applied retroactively and effective from 1 January 2019 with early application permitted. Since the Company has no long-term investments in associates and joint ventures, these amendments will have no impact on the financial statements.

**2.3 Financial instruments**

The Company classifies its financial instruments as financial assets and financial liabilities. Financial assets and financial liabilities are recognized when the Company is a party to the contractual provisions of those instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interests, dividends, profits and losses related to a financial instrument classified as a liability are recognized as an expense or income. Distributions to holders of such financial instruments classified as equity are carried directly in equity. Financial instruments are recognized when the Company has a legally enforceable right to settle the net of assets and liabilities and intends to settle either at net amount or by selling the assets and paying the liabilities simultaneously.

Financial assets and liabilities carried in the statement of financial position include cash and cash equivalents, financial assets at fair value through other comprehensive income, accounts receivable and term loan.

## 2.3 Financial Instruments (continued)

### 2.3.1 Financial Assets

#### Accounting policy effective from 1 January 2018

The Company has adopted IFRS 9 Financial Instruments, issued in July 2014 with initial application on 1 January 2018. The requirements of IFRS 9 represent a significant change to IAS 39 “Financial Instruments: Recognition and Measurement.” The new standard introduces significant changes in accounting for financial assets and certain aspects of accounting for financial liabilities.

#### Classification of financial assets

##### Evaluation of business model

The Company determines its business model at a level that best reflects how it manages its financial assets to achieve its objectives and contractual cash flows whether the Company’s sole objective is to collect contractual cash flows from assets or both collect contractual cash flows as well as cash flows from the sale of assets. If neither of these conditions applies (for example, financial assets held for trading), financial assets are classified as part of the sale business model and are measured at fair value through profit or loss. The business model is not evaluated for each instrument, but at a higher level than the overall portfolio.

##### Initial recognition

Purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Company commits to purchase or sell the asset / settlement date, the date on which the asset is delivered to the Company or purchased by the Company. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

##### De-recognition

A financial asset is derecognized (in whole or in part) when the contractual rights to receive the cash flows from the financial asset expire or transferred by the company in either of the following cases: (a) If all the risks and rewards of ownership of the financial assets are transferred by the company; or (b) all the risks and rewards of the financial asset are not transferred or retained, but the control over the financial asset is transferred. When the Company retains control, it must continue to include financial assets to the extent of their participation therein.

##### Financial asset measurement categories

The measurement categories of financial assets in accordance with IAS 39 (at fair value through profit or loss, available-for-sale, held to maturity, loans and receivables) were replaced by the following:

- Debt instruments at amortized cost.
- Debt instruments at fair value through other comprehensive income, with reclassification of profits or losses, on de-recognition, to statement of profit or loss.
- Equity instruments at fair value through other comprehensive income, without reclassification of profits or losses, on de-recognition, to statement of profit or loss.

## 2.3 Financial Instruments (continued)

### 2.3.1 Financial Assets (continued)

#### Debt instruments at amortized cost (AC)

Financial assets are measured at AC if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Debt instruments classified at AC are subsequently measured at amortized cost using the effective interest method adjusted for impairment losses, if any. Profits and losses are recognized in statement of profit or loss when an asset is derecognized, modified or impaired.

Cash and cash equivalents is classified as a debt instrument at AC.

- *Cash in hand and at banks*

Cash and cash equivalents is represented in cash in hand and at banks, and call deposits.

#### Equity instruments at FVOCI

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Profits or losses resulting from equity instruments are not reclassified to statement of profit or loss. Dividends are recognized in statement of profit or loss when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. On de-recognition, cumulative gains or losses will be reclassified from fair value reserve to retained earnings in the statement of changes in equity.

The Company classifies quoted and unquoted equity investments, within financial assets, at FVOCI in the statement of financial position.

#### Impairment of financial assets

The adoption of IFRS 9 led to significant changes in the Company's accounting for impairment losses of financial assets by replacing the replaces the "incurred loss" model in IAS 39 with the "Expected Credit Loss" (ECL) model.

IFRS 9 requires the Company to record a provision for expected credit losses for all debt instruments that are not held at fair value through profit or loss.

The expected credit losses are based on the difference between payable contractual cash flows as per the contract and all cash flows that the Company expects to receive. The deficit is approximately discounted to the original effective interest rate on that asset.



## 2.3 Financial Instruments (continued)

### 2.3.1 Financial Assets (continued)

#### Impairment of financial assets (continued)

For debt instruments classified as related party balances, the Company applies the forward-looking approach method where the recognition of credit losses no longer depends on the initial identification of the credit loss event. Instead, the Company takes into account a greater range of information when assessing credit risk and measuring expected credit losses including past events, current circumstances, reasonable and verifiable expectations that affect the expected ability to collect future cash flows of a debt instrument.

To apply the forward-looking approach, the Company applies a three-stage valuation to measure ECLs as follows:

- Stage 1- financial instruments whose credit quality have not been significantly impaired since initial recognition or classified as low credit risk.
- Stage 2 (not credit impaired) - Financial instruments that have been significantly impaired since initial recognition and credit risk is not low.
- Stage 3 (credit impaired) - Financial assets that have objective evidence of credit impairment as at reporting date and are determined to be credit impaired when one or more events have a negative impact on estimated future cash flows.

The "12 Month ECL" is recognized for Stage 1 and "Lifetime ECL" is recognized for Stage 2.

ECLs are measured by estimating the weighted probability of credit losses over the life of the instrument. ECLs measured at amortized cost are deducted from the total carrying amount of the assets and are charged to the consolidated statement of profit or loss. For financial instruments classified at fair value through other comprehensive income, the provision is recognized in statement of profit or loss.

### 2.3.2 Financial liabilities

The accounting for financial liabilities will remain largely consistent with that applied under IAS 39, except for treatment of profits or losses arising from the Company's credit risk relating to liabilities classified at fair value through profit or loss. Such changes are presented in other comprehensive income without subsequent reclassification to statement of profit or loss.

#### ○ **Borrowing:**

Loans are recognized initially at fair value less costs incurred. Loans are subsequently carried at amortized cost. The difference between the amount received (net of transaction cost) and the recoverable amount is recognized in statement of profit or loss during the borrowing period using the effective interest rate method.

Costs paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**2.3 Financial Instruments (Continued)****2.3.2 Financial Liabilities (continued)****Classification of financial assets and liabilities At the date of initial application of IFRS 9,**

The below table shows the reconciliation between the initial measurement and book value categories in accordance with IAS 39 and the new measurement categories in accordance with IFRS 9 of the Company's financial assets and liabilities as at 1 January 2018:

|                           | <i>Original<br/>classificati<br/>on under<br/>IAS 39</i> | <i>New<br/>classification<br/>under IFRS 9</i> | <i>Original<br/>carrying<br/>amount<br/>under<br/>IAS 39</i> | <i>Additional<br/>loss<br/>provision<br/>recognized<br/>under IFRS 9</i> | <i>New<br/>carrying<br/>amount<br/>under<br/>IFRS 9</i> |
|---------------------------|--|--|--|--|---|
| <b>Financial assets</b>   |  |  |  |  |   |
| Cash and cash equivalents | Loans and receivables                                    | Amortized cost                                 | 4,551,752  | (37)   | 4,551,715   |
| Other debit balances      | Loans and receivables                                    | Amortized cost                                 | 340,645  | (1,710)  | 338,935   |
| Equity shares             | AFS financial assets                                     | Financial assets at FVOCI                      | 972,282  | -  | 972,282   |
| Total financial assets    |  |  | <b>5,864,679</b>   | <b>(1,747)</b>   | <b>5,862,932</b>  |

The Company derecognized all financial instruments classified as equity before initial application date and chose not to restate comparative figures when applying IFRS 9. Therefore, there is no impact on the financial statements in respect of these instruments.

The impact of adopting the standard is mainly on cash and cash equivalents and other debit balances where ECLs were calculated as per the requirements of the Standard. Consequently, the provision for doubtful debts was amounting to KD 1,710 and the provision for additional loss recognized under IFRS 9 relating to cash and cash equivalents was amounting to KD 37 as at 1 January 2018. The effect on the opening balance of retained earnings as at that date was recognized.

**3. Significant accounting policies****3.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and the following subsidiary (the Company).

| Name of subsidiary  | Country of Incorporation | Main activities         | Ownership percentage (%) |                     |
|---|--------------------------|-------------------------|--------------------------|---------------------|
|   |                          |                         | 2018                     | 2017 (consolidated) |
| Gulf Spring Kuwait for Real Estate Development Co. W.L.L. | State of Kuwait          | Real estate development | -                        | 99.98%              |

On 24 September 2018, the parent company sold its share of 99.98% in Gulf Spring Kuwait for Real Estate Development Co. W.L.L. This transaction did not result in any gain or loss in the statement of profit or loss and other comprehensive income (Note 21).

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**3. Significant accounting policies (continued)**

**3.1 Basis of consolidation (continued)**

The financial statements include the financial statements of the Company and the companies controlled by the Company and its subsidiaries. Control is achieved when the company has: (a) the power to control the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use the control over the investee company to influence returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of subsidiaries begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are derecognized in full on consolidation.

The change in the Company's ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any differences between the adjusted amount of the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company's shareholders.

When the Company loses control over a subsidiary, the gain or loss on disposal is recognized in the statement of income and the gain or loss is calculated as the difference between:

- a) Total fair value of the consideration received and the fair value of the remaining share;
- b) The carrying amount of assets before disposal (including goodwill), liabilities of the subsidiary and non-controlling interests.

All amounts, related to the subsidiary, previously recognized in the statement of other comprehensive income are accounted for if the Company has derecognized assets and liabilities of the subsidiary directly. The fair value of any interest remaining in a "former" subsidiary on the date of de-recognition is considered to be the fair value at initial recognition for subsequent accounting under IAS 39, or the cost at initial recognition of the interest in an associate or a joint venture.

**Business combination**

Companies and businesses combination is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, being the total of the fair value of assets transferred in the acquisition date or liabilities incurred by the Company or transferred to it through the acquiree's former owners and the equity instruments issued by the Company in exchange acquisition. In general, acquisition-related costs are recognized in the statement of income, when incurred.

The acquired assets and liabilities identified in the business combination are initially recognized at fair value in the acquisition date, except for deferred tax assets and liabilities, equity instruments associated with share-based payment arrangements and assets designated for sale, as these are accounted for in accordance with relevant IFRSs.

### **3. Significant accounting policies (continued)**

#### **3.1 Basis of consolidation (continued)**

Goodwill is measured as the increase in the consideration transferred, non-controlling interest in the acquiree and the fair value of the equity interest (if any) previously held behind net amounts of identifiable assets acquired and liabilities incurred in the acquisition date. If net amounts of identifiable assets acquired and liabilities incurred were greater than the consideration transferred, amount of any non-controlling interest in the acquiree and the fair value of the equity interest (if any) previously held, the increase is recognized directly in the statement of income as an acquisition gain.

The non-controlling interests' share in the acquired subsidiary is measured at the non-controlling interests' share of the acquiree's identifiable net assets or the fair value of that interest. The measurement method is determined on a line-by-line basis for each transaction.

When a business combination is achieved in stages, the equity interest previously held in the acquiree is re-measured at fair value in the acquisition date (i.e., date of initial control) and the resulting gain or loss, if any, is recognized in the statement of income. Amounts arising from equity in the acquiree prior to the acquisition date that were previously recognized in the statement of income and other comprehensive income are reclassified to the statement of income if such treatment is deemed appropriate having disposed.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries is recognized at cost, as in the acquisition date, less impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to cash generating units "CGU" (or cash generating groups), which are expected to benefit from the business combination.

Groups of CGUs to which goodwill is allocated are tested annually for impairment or over shorter periods when there is indication that the value of such groups has impaired.

If the recoverable amounts of CGUs is lower than their carrying amount, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis according to the carrying amounts of each asset of CGU. An impairment loss in respect of goodwill is not reversed, which are recognized in subsequent periods. Upon de-recognition of any CGUs, the value of related goodwill is considered in determining de-recognition profits and losses.

#### **3.2 Investment in associates and joint ventures**

Associates are those entities over which the Company has significant influence. Significant influence is the ability to participate in the decisions related to financial and operating policies of investee but not control or joint control over such policies.

A joint venture is an arrangement over which the parties that have joint control over the arrangement will have rights to the net assets of the arrangement. Joint control is contractually agreed sharing of control over the arrangement, which only exists when the decisions relating to the activities require the unanimous consent of the parties sharing control.

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**3.2 Investment in associates and joint ventures (continued)**

Business results, assets and liabilities of associates and joint ventures are carried in these financial statements using the equity method except when the investment or part thereof is classified as held for sale; in such case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates or joint ventures are initially carried in the statement of financial position at cost as adjusted subsequently for changes in the Company's share of the profits or losses and any other comprehensive income of associates or joint venture. When the Company's share of losses of an associate or a joint venture is in excess of the Company's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or joint venture), the Company ceases to recognize its share of losses. Additional losses are recognized only to the extent that the Company has an obligation or has made payments on behalf of the associate or joint venture.

Upon acquisition of an associate or joint venture, any excess of the cost of acquisition over the Company's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognized in the acquisition date is recognized as goodwill. Goodwill is stated within the carrying amount of the investment in associates or joint ventures. Any increase in the Company's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the acquisition cost after the reassessment is recognized immediately in the statement of income.

When the Company has business with an associate or joint venture, profits or losses arising out of transactions with associates or joint ventures are eliminated to the extent of the Company's interest in the associate or joint venture.

**3.3 Investment properties**

Investment properties comprise properties held to earn rentals and/or for capital appreciation (including property under construction held for the same purposes). Investment properties are initially measured at cost including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the statement of income for the period in which they arise.

Investment properties are derecognized 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. Gains or losses arising on the disposal (computed at the amount of difference between the net proceeds from disposal and carrying amount of asset) are recognized in the statement of income for the period in which the disposal occurs.

**3.4 Property and equipment:**

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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(All amounts are shown in Kuwaiti Dinar)

**3.4 Property and equipment (continued)**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from accounts and any gain or loss resulting from their disposal is included in statement of profit or loss.

Depreciation is computed on a straight-line basis over the estimated useful lives of property and equipment items as follows:

| Assets                  | Useful life<br>(years) |
|-------------------------|------------------------|
| Furniture and equipment | 3-5                    |

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

Items of property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of such assets.

**3.5 Impairment of assets:**

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any evidence that those assets have suffered an impairment loss. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less sale costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**3.6 Provision for end of service indemnity:**

Provision is made for employees' end of service indemnity as per the Kuwaiti Labor Law in the private sector and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period, and approximates the present value of the final obligation.

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(All amounts are shown in Kuwaiti Dinar)

**3.7 Dividends to shareholders**

The Company recognizes a liability to make cash and non-cash dividends to shareholders of the Parent Company when the distribution is finally approved, and the distribution is no longer at the discretion of the Company. Such dividends are authorized when it is approved by the shareholders of the Parent Company at the Annual General Assembly Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the statement of profit or loss.

Dividends approved after the reporting date are disclosed as subsequent event after the date of statement of financial position.

**3.8 Treasury shares**

Treasury shares comprise shares that have been issued, subsequently reacquired by the Company and not yet re-disposed of or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity ("treasury shares reserve") which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**3.9 Provisions**

Provisions, including guarantee provision, are made when the Company has a present legal or constructive obligation as a result of a past events, it is probable that an outflow of economic resources will be required to settle such obligation, and the amount can be reliably estimated.

**3.10 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets qualifying for borrowing costs capitalization conditions, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are expensed in the consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that Company incurs in connection with the borrowing of funds.

**3.11 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for leasing units or provision of services in the ordinary course of the Company's activities. Revenue is shown after eliminating sales within the Company.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. In making estimates, the Company depends on historical results, taking into consideration the type of customer, the type of transaction and the requirements of each arrangement.

### 3.11 Revenue recognition (continued)

- *Interest income*  
Interest income is recognized on a time proportion basis using the effective interest method. When accounts receivable are impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the financial instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.
- *Dividend income*  
Dividend income is recognized when the Company's right to receive payment is established.
- *Rental*  
Rental income is recognized, when earned, on a time apportionment basis.
- *Gain on sale of investments*  
Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investments in the disposal date, and is recognized at the time of sale.
- *Income on sale of properties*  
Revenue on sale of properties is recognized on the basis of full accrual method as and when all of the following conditions are met:
  - A sale is consummated and contracts are signed;
  - The buyer's investment (sale amount), as at the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
  - The Company's accounts receivable are not subject to future impairment;
  - The Company has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement or ownership of the property; and
  - Works required to complete the property are either, easily measurable and accrued or are not significant in relation to the overall value of the contract. If all the above conditions are met, except for the last condition, the completion method will be followed in revenue recognition.
- *Other income*  
Other income is recognized on accrual basis.

### 3.12 Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

Determining whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys or grants a right to use the asset.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.



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**3.13 Foreign currencies**

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting period are translated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in statement of profit or loss for the period. Translation differences on non-monetary items such as equity instruments classified as financial assets available for sale are included in "cumulative changes in fair value" in the statement of other comprehensive income.

**3.14 Segment reporting**

A segment is a distinguishable component of the Company, which is engaged in business activities resulting in earning revenue and incurring costs. Operating segments are used by the Company's management to allocate resources and assess performance. The operating segments that have similar economic characteristics, products, services and customers categories are combined and reported as segments.

**3.15 Contingencies**

Contingent liabilities are not recognized in the financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

**4. Financial risk management****Financial risks**

In the normal course of business, the Company uses certain primary financial instruments such as cash and cash equivalents, accounts receivable, available for sale financial assets, term loans and accounts payable and as a result, it is exposed to the risks indicated below. The Company currently does not use derivative financial instruments to manage its exposure to these risks.

**a. Interest rate risk:**

Financial instruments are subject to risk of changes in value due to changes in interest rates of its financial assets liabilities carrying floating interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table illustrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit through the impact on floating rate of borrowings and deposits:

|                          | 2018                                 |                         | Impact on statement of profit or loss and other comprehensive income (Kuwaiti Dinar) |
|--------------------------|--------------------------------------|-------------------------|--|
|                          | Increase (Decrease) in interest rate | Balance (Kuwaiti Dinar) |  |
| Short-term bank deposits | ±0.5%                                | 1,200,000               | 6,000  |
| Term loans               | ±0.5%                                | 850,000                 | 4,250  |
|                          |                                      |                         | <b>10,250</b>  |

## Notes to Financial Statements for the financial year ended 31 December 2018

(All amounts are shown in Kuwaiti Dinar)

4. Financial Risk Management (continued)  
Financial risks (continued)

|                          | 2017 (consolidated)                        |                            |   |
|--------------------------|--|----------------------------|---|
|                          | Increase<br>(Decrease) in<br>interest rate | Balance<br>(Kuwaiti Dinar) | Impact on statement of<br>profit or loss and other<br>comprehensive income<br>(Kuwaiti Dinar) |
| Short-term bank deposits | ±0.5%                                      | 4,150,000                  | ±20,750   |
| Term loans               | ±0.5%                                      | 2,422,295                  | ±12,111   |
|                          |  |                            | ±32,861   |

## b. Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Company to credit risk consists principally of cash at banks, short-term bank deposits, accounts receivable and due from related parties. The Company's cash, fixed and short-term bank deposits are placed with high credit rating financial institutions. The debtor related parties are of strong creditworthiness. Accounts receivable are stated net of allowance for doubtful debts. Credit risk with respect to accounts receivable is limited due to the large number of lessees.

The Company's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, short-term deposits, accounts receivable and due from related party.

## c. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Company may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Company ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates between other currencies and Kuwaiti Dinar:

|     | 2018  |   |   |
|-----|---|---|---|
|     | Increase (Decrease)<br>against<br>Kuwaiti Dinar | Impact on statement<br>of profit or loss<br>(Kuwaiti Dinar) | Impact on other<br>comprehensive<br>income<br>(Kuwaiti Dinar) |
| AED | ±5%   | 3,284   | 3,284   |
| GBP | ±5%   | 113,303   | 113,303   |
| USD | ±5%   | 76,330  | 76,330  |
|     |   | ±192,917  | ±192,917  |

|     | 2017 (consolidated)                             |   |   |
|-----|---|---|---|
|     | Increase (Decrease)<br>against<br>Kuwaiti Dinar | Impact on statement of<br>profit or loss<br>(Kuwaiti Dinar) | Impact on other<br>comprehensive<br>income<br>(Kuwaiti Dinar) |
| AED | ±5%   | ±120,358  | ±120,358  |

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**4. Financial Risk Management (continued)**  
**Financial risks (continued)****d. Liquidity risk:**

Liquidity risk arises when the Company encounters difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Company periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable, along with planning and managing the Company's expected cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks, and matching the maturity profiles of financial assets and liabilities.

Table of financial liabilities maturity

|  | 2018                |                |                  |                  |
|--|---------------------|----------------|------------------|------------------|
|  | 1-3<br>months       | 3-12<br>months | Above<br>1 year  | Total            |
| Term loans                                 | 50,000              | 150,000        | 650,000          | 850,000          |
| Accounts payable and other credit balances | 160,210             | 378,031        | 49,966           | 588,207          |
|  | <u>210,210</u>      | <u>528,031</u> | <u>699,966</u>   | <u>1,438,207</u> |
|  | 2017 (consolidated) |                |                  |                  |
|  | 1-3<br>months       | 3-12<br>months | Above<br>1 year  | Total            |
| Term loans                                 | 31,899              | 404,402        | 1,985,994        | 2,422,295        |
| Accounts payable and other credit balances | 106,817             | 356,862        | 84,800           | 548,479          |
|  | <u>138,716</u>      | <u>761,264</u> | <u>2,070,794</u> | <u>2,970,774</u> |

**Fair value measurement**

The fair value of financial assets and liabilities is measured as follows:

- The fair value of financial assets and liabilities is measured using specific measurements and conditions and traded in active market based on the market prices.
- The fair value of other financial assets and liabilities is measured as per pricing methods based on discounted cash flows.

The table below illustrates the analysis of financial instruments, which are measured after initial recognition at fair value based on three levels of fair value hierarchy:

- Level 1 :Quoted prices for financial instruments in active markets
- Level 2:Quoted prices in active markets for similar instruments or quoted prices from manager of invested fund agers or other valuation techniques in which all significant inputs are based on comparative market information directly or indirectly.
- Level 3: Valuation techniques in which any significant inputs are not based on comparative market information.

The Company's management has assessed that fair value of its financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these financial instruments.

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

The fair value of investment properties is stated in Note 11.

**Notes to Financial Statements for the financial year ended 31 December 2018**  
(All amounts are shown in Kuwaiti Dinar)

**4. Financial Risk Management (continued)**

**Financial risks (continued)**

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide high returns for shareholders through optimal use of equity.

The Company's capital structure comprises net debts (loans and Islamic debt instruments less cash and cash equivalents) and equity (including share capital, reserves, retained earnings and non-controlling interests).

The following is the gearing ratio as at 31 December:

|                                 | 2018               | 2017<br>(consolidated) |
|---------------------------------|--------------------|------------------------|
| Total debts                     | <u>850,000</u>     | <u>2,422,295</u>       |
| Less: cash and cash equivalents | <u>(2,052,470)</u> | <u>(4,551,752)</u>     |
| Net debts                       | <u>(1,202,470)</u> | <u>(2,129,457)</u>     |
| Total equity                    | <u>28,075,427</u>  | <u>28,128,518</u>      |
| Total share capital             | <u>26,872,957</u>  | <u>25,999,061</u>      |

**5. Critical accounting judgments, estimates and assumptions**

The Company makes judgments, estimates and assumptions concerning future reasons. The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the date of the financial statements and the reported amounts in the statement of income during the year. Actual results could differ from such estimates.

a. Judgments:

In the process of applying the Company's accounting policies described in Note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

- Revenue Recognition:

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Determining whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

- Classification of lands:

Upon acquisition of land, the Company classifies the land into one of the following categories, based on the management's purpose for use of the land:

- Properties under development

When the Company's intention is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

- Work in progress

When the Company's intention is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

- Properties held for trading

When the Company's intention is to sell land in the ordinary course of business, the land are classified as properties held for trading.

- Investment properties

When the Company's intention is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**5. Critical accounting judgments, estimates and assumptions (continued)**

a. Judgments: (continued)

• Provision for doubtful debts:

Determining the recoverability of the amount due from customers and the factors determining the impairment of the accounts receivable involve significant judgment.

• Classification of financial assets

The Company classifies financial assets as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through profit or loss at acquisition, provided their fair values can be reliably estimated. The Company classifies financial assets as "held to maturity" if the Company has the positive intention and ability to hold the same to maturity. All other financial assets are classified as "available for sale".

b. Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

• Fair value of unquoted financial assets

The Company calculates the fair value of financial assets whose market is not active by using valuation techniques, which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Company to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

• Provision for doubtful debts:

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified. The provisions and write-down of accounts receivable are subject to management approval.

• Valuation of investment properties

The Company carries its investment properties at fair value, with change in fair values being recognized in the statement of profit or loss. Three main methods were used to determine the fair value of the investment properties:

- The discounted cash flow formula is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.
- Income capitalization approach, where the property's value is estimated based on the its income produced, and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.
- Comparative analysis, which is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

**Notes to Financial Statements for the financial year ended 31 December 2018**  
(All amounts are shown in Kuwaiti Dinar)

**5. Critical accounting judgments, estimates and assumptions (continued)**

b. Estimates and assumptions: (continued)

• Impairment of non-financial assets:

Impairment exists when the carrying value of an asset (or cash generating unit) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in their related Notes.

**6. Cash and cash equivalents**

|                           | <b>2018</b>             | 2017<br>(consolidated) |
|---------------------------|-------------------------|------------------------|
| Cash in hand and at banks | <u>852,470</u>          | 401,752                |
| Short-term bank deposits  | <u>1,200,000</u>        | 4,150,000              |
|                           | <u><b>2,052,470</b></u> | <u>4,551,752</u>       |

The effective interest rate on short term bank deposits ranges from 1.125% to 2.625% (2017: from 0.5% to 2%) per annum; these deposits have an average maturity of 90 days (2017: 90 days).

**7. Other debit balances**

|  | <b>2018</b>           | 2017<br>(consolidated) |
|--|-----------------------|------------------------|
| Prepaid expenses and others            | <u>17,417</u>         | 27,557                 |
| Accrued revenues                       | <u>87,981</u>         | 163,004                |
| Due from brokerage company             | <u>44,325</u>         | 64,535                 |
| Refundable deposits                    | <u>20,404</u>         | 19,532                 |
| Staff receivables                      | <u>3,392</u>          | 5,208                  |
| Due from contractors - advance payment | <u>4,969</u>          | 60,809                 |
|  | <u><b>178,488</b></u> | <u>340,645</u>         |

**8. Financial assets at fair value through other comprehensive income**

The Company elected to reclassify financial assets available for sale amounting to KD 972,282 to financial assets at fair value through other comprehensive income. (Note 9)

|                           | <b>2018</b>             | 2017<br>(consolidated) |
|---------------------------|-------------------------|------------------------|
| Quoted shares – local     | <u>283,298</u>          | -                      |
| Unquoted shares – local   | <u>322,626</u>          | -                      |
| Unquoted shares – foreign | <u>4,103,443</u>        | -                      |
| Investment fund – foreign | <u>234,807</u>          | -                      |
|                           | <u><b>4,944,174</b></u> | <u>-</u>               |

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**8. Financial assets at fair value through other comprehensive income (Continued)**

Financial assets at fair value through other comprehensive income are denominated in the following currencies:

|     | <u>2018</u>      | <u>2017</u><br>(consolidated) |
|-----|------------------|-------------------------------|
| KWD | 605,924          | -                             |
| GBP | 2,187,464        | -                             |
| USD | 1,761,402        | -                             |
| BHD | 389,384          | -                             |
|     | <u>4,944,174</u> | <u>-</u>                      |

**9. Financial assets available for sale**

|                           | <u>2018</u> | <u>2017</u><br>(consolidated) |
|---------------------------|-------------|-------------------------------|
| Quoted shares – local     | -           | 25,465                        |
| Unquoted shares – local   | -           | 322,626                       |
| Unquoted shares – foreign | -           | 389,384                       |
| Investment fund – foreign | -           | 234,807                       |
|                           | <u>-</u>    | <u>972,282</u>                |

At 1 January 2018, the Company adopted IFRS 9. Therefore, it reclassified financial assets available for sale with carrying amount of KD 972,282 to financial assets at fair value through other comprehensive income.

**10. Investment in an associate**

| Name of subsidiary   | Country of Incorporation | Main activities | Ownership percentage (%) |             | Amount           |                  |
|--|--------------------------|-----------------|--------------------------|-------------|------------------|------------------|
|  |                          |                 | <u>2018</u>              | <u>2017</u> | <u>2018</u>      | <u>2017</u>      |
| Aqar Al Khalijiya General Trading & Contracting Company W.L.L. | State of Kuwait          | General Trading | 21%                      | 21%         | <u>1,589,438</u> | <u>1,589,438</u> |
|  |                          |                 |                          |             | <u>1,589,438</u> | <u>1,589,438</u> |

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**10. Investment in an associate (continued)**

Movement during the year is as follows:

|  | <b>2018</b>      | 2017<br>(consolidated) |
|--|------------------|------------------------|
| Balance at the beginning of year               | <b>1,589,438</b> | 2,546,981              |
| Company's share in associate's results         | -                | 202,339                |
| Purchase of a share in an associate            | -                | 1,589,438              |
| Disposals – sale of Al-Barshaa Real Estate Co. | -                | (2,504,320)            |
| Cash dividends received from an associate      | -                | (245,000)              |
| Balance at the end of year                     | <b>1,589,438</b> | 1,589,438              |

The Company did not recognize its share of results from Aqar Al Khalijiya General Trading & Contracting Company W.L.L. as the associate's company has not been engaged in any activities yet.

**11. Investment properties**

|   | <b>2018</b>        | 2017<br>(consolidated) |
|---|--------------------|------------------------|
| Balance at the beginning of year                  | <b>23,772,829</b>  | 23,442,682             |
| Additions   | <b>660,000</b>     | 153,538                |
| Disposals   | <b>(3,704,000)</b> | -                      |
| Change in fair value from continued activities    | -                  | 262,609                |
| Change in fair value from discontinued activities | <b>152,592</b>     | (86,000)               |
| Balance at the end of year                        | <b>20,881,421</b>  | 23,772,829             |

Investment property with carrying value KD 1,648,000 is constructed on right of utilization for plots No. 1410 and 1411 with an area of 2,000 square meters in Al-Rai Industrial Area under No. 169 given by the Public Authority for Industry, which will expire on 10 February 2019, and the contract is renewable for similar periods under new contract and terms.

Fair value of investment properties was determined by accredited independent valuation experts with professional experience and efficiency using recognized valuation techniques and principles. The Company recognized the lowest valuation in accordance with the instructions of the Capital Markets Authority's guidance dated 23 July 2012 on valuation of investment properties.

During 2018, the subsidiary sold its investment property with a carrying amount of KD 3,704,000 for an amount of KD 3,950,000 resulting in a profit of KD 246,000 carried in the statement of profit or loss and other comprehensive income under profit for the year from discontinued operations.



**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**11. Investment properties (Cont'd)**

For purpose of evaluating the fair value of investment properties, valuers used the valuation techniques, shown in the following table, and key inputs to valuation considered the nature and usage of the investment properties:

| Category of investment property                  | Valuation technique     | Level 2           | Level 3          | Total             |
|--|-------------------------|-------------------|------------------|-------------------|
| Residential and commercial investment properties | Comparable market price | 19,233,421        | -                | 19,233,421        |
| Commercial investment properties                 | Income capitalization   | -                 | 1,648,000        | 1,648,000         |
|  |                         | <u>19,233,421</u> | <u>1,648,000</u> | <u>20,881,421</u> |

As of 31 December 2018, certain investment properties with a carrying value of KD 2,360,000 (2017: KD 9,598,920) are pledged in favor of local banks against term loans (Note 12).

**12. Term loans**

|                               | 2018           | 2017<br>(consolidated) |
|-------------------------------|----------------|------------------------|
| Term loans – current part     | 200,000        | 436,301                |
| Term loans – non-current part | 650,000        | 1,985,994              |
| Total term loans              | <u>850,000</u> | <u>2,422,295</u>       |

The term loans include loans extended to the Company by a local bank with an interest rate of 2.25% per annum over CBK's discount rate, and they are secured by mortgage of investment properties with carrying amount of KD 2,360,000 (2017: KD 9,598,920).

**13. Accounts payable and other credit balances**

|   | 2018           | 2017<br>(consolidated) |
|---|----------------|------------------------|
| Trade payables                            | 11,774         | 16,158                 |
| Due to contractors                        | 121,503        | 14,142                 |
| Rentals received in advance               | 125,820        | 160,352                |
| Accrued expenses                          | 56,198         | 71,816                 |
| Dividend payable                          | 88,301         | 85,358                 |
| Leasees' deposits                         | 49,966         | 59,774                 |
| NLST payable                              | 33,737         | 49,092                 |
| Board of Directors' remunerations payable | 30,000         | 35,000                 |
| Accrued staff leave                       | 30,633         | 25,025                 |
| Zakat payable                             | 12,833         | 16,033                 |
| KFAS payable                              | 27,442         | 15,729                 |
|   | <u>588,207</u> | <u>548,479</u>         |

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**14. Provision for end of service indemnity**

|  | <b>2018</b>     | 2017<br>(consolidated) |
|--|-----------------|------------------------|
| Balance at the beginning of the year     | <b>129,171</b>  | 73,352                 |
| Charged for the year                     | <b>19,050</b>   | 55,819                 |
| Reversal of no longer required provision | <b>(13,687)</b> | -                      |
| Balance at the end of the year           | <b>134,534</b>  | 129,171                |

**15. Share capital**

The Company's authorized, issued and paid-up share capital comprises 234,250,000 shares (2017: 234,250,000 shares) with nominal value of 100 Kuwaiti fils each, and all shares are cash.

**16. Treasury shares**

|                                   | <b>2018</b>       | 2017<br>(consolidated) |
|-----------------------------------|-------------------|------------------------|
| Number of treasury shares (share) | <b>22,281,538</b> | 22,281,538             |
| Percentage to issued shares       | <b>9.51%</b>      | 9.51%                  |
| Market value (KD)                 | <b>1,363,630</b>  | 1,492,863              |
| Cost (KD)                         | <b>1,861,595</b>  | 1,861,595              |

The Company's management has set aside part of the retained earnings, reserves share premium and equal to treasury shares balance as at the date of financial statements. Such amount will not be available for distribution during treasury shares holding period. Treasury shares are not pledged.

**17. Statutory reserve**

As required by the Companies Law and the Company's Articles of Association, 10% of the profit for the year attributable to the Company's shareholders of before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Company's Articles of Association.

**18. Voluntary reserve**

As required by the Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors.

**19. Related party transactions**

In the normal course of its business, the Company has entered into various transactions with related parties, i.e. shareholders, board of directors, key management personnel, associates, entities under common control and other related parties. Prices and terms of payment are approved by the Company's management. Significant related party transactions and balances are as follows:

**Notes to Financial Statements for the financial year ended 31 December 2018**  
 (All amounts are shown in Kuwaiti Dinar)

**19. Related party transactions (Cont'd)**
Balances included in statement of profit or loss:

|   | <b>2018</b>    | 2017<br>(consolidated) |
|---|----------------|------------------------|
| Fees for managing associate's investment properties | -              | 16,500                 |
| Key management's benefits:                          |                |                        |
|   | <b>2018</b>    | 2017<br>(consolidated) |
| Short term benefits                                 | <b>135,584</b> | 117,774                |
| Post-employment benefits                            | <b>13,154</b>  | 10,615                 |
| BOD's remuneration                                  | <b>30,000</b>  | 35,000                 |
|   | <b>178,738</b> | 163,389                |

**20. General and administrative expenses**

General and administrative expenses include staff costs amounting to KD 293,980 (2017: KD 304,249).

**21. Discontinued operations**

On 24 September 2018, the Parent Company sold its share of 99.98% in Gulf Spring Kuwait for Real Estate Development W.L.L., which resulted in loss of Parent Company's control over the subsidiary through the loss of majority voting and representation rights in the subsidiary's board of directors.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal of Gulf Spring Kuwait for Real Estate Development W.L.L. was classified as discontinued operations. The results of discontinued operations for the period from 1 January 2018 to 24 September 2018 (loss of control date) are presented below. Comparative figures have been reclassified to include those operations that have been classified as discontinued operations to be in line with current period figures.

|  | <b>2018</b>     | 2017     |
|--|-----------------|----------|
| Properties rental income                         | <b>59,270</b>   | 218,535  |
| Properties operating costs                       | <b>(13,607)</b> | (28,033) |
| Net rental income from Properties                | <b>45,663</b>   | 190,502  |
|  | <b>246,000</b>  |          |
| Change in fair value of investment properties    | -               | (86,000) |
| Net operating profit                             | <b>291,663</b>  | 104,502  |
| Other income                                     | -               | 6,239    |
| Interest income                                  | <b>1,877</b>    | 6,833    |
| Depreciation                                     | <b>(8)</b>      | -        |
| General and administrative expense               | <b>(1,042)</b>  | (1,664)  |
| Profit for the year from discontinued operations | <b>292,490</b>  | 115,910  |
| Attributable to:                                 |                 |          |
| Parent Company's shareholders                    | <b>292,432</b>  | 115,887  |
| Non-controlling interests                        | <b>58</b>       | 23       |
| Net profit for the year                          | <b>292,490</b>  | 115,910  |

**Notes to Financial Statements for the financial year ended 31 December 2018**  
(All amounts are shown in Kuwaiti Dinar)

**21. Discontinued operations**

- (a) Gain on disposal of Gulf Spring Kuwait for Real Estate Development W.L.L. classified under "profit from continued operations" was calculated as follows:

|   | <b>24<br/>September<br/>2018</b> |
|---|----------------------------------|
| Cash received against disposal              | 4,425,942                        |
| Less: net asset value                       | <u>(4,425,942)</u>               |
| Gain on disposal of discontinued operations | <u>-</u>                         |

- (b) The significant items of assets and liabilities related to the activities of Gulf Spring Kuwait for Real Estate Development W.L.L, control over which was lost on 24 September 2018, subject to disposal and classified as discontinued operations, are as follows:

|   | <b>24 September<br/>2018</b> |
|---|------------------------------|
| <b>Assets</b>   |                              |
| Cash and cash equivalents                                   | 1,442                        |
| Account receivable and other debit balances                 | 2,625                        |
| Due from related parties                                    | 4,423,046                    |
| <b>Total assets</b>   | <u>4,427,113</u>             |
|   |                              |
|   | <b>24 September<br/>2018</b> |
| <b>Liabilities</b>  |                              |
| Accounts payable and other credit balances                  | 1,171                        |
| <b>Total liabilities</b>                                    | 1,171                        |
| <b>Net assets related to activities subject to disposal</b> | <u>4,425,942</u>             |

- (c) The net cash flows related to discontinued operations are as follows:

|   | <b>2018</b>      | <b>2017</b>      |
|---|------------------|------------------|
| Net cash flows used in operating activities       | <u>(11,772)</u>  | <u>(66,471)</u>  |
| Net cash flows from investing activities          | 100,000          | -                |
| Net cash flows used in financing activities       | <u>(569,000)</u> | <u>(34,296)</u>  |
| Net cash flows related to discontinued operations | <u>(480,772)</u> | <u>(100,767)</u> |

**Notes to Financial Statements for the financial year ended 31 December 2018**  
(All amounts are shown in Kuwaiti Dinar)

**22. Earnings per share**

There are no potential dilutive ordinary shares. The information required to calculate basic earnings per share based on the weighted average number of shares outstanding during the year is as follows:

|  | 2018                | 2017<br>(consolidated) |
|--|---------------------|------------------------|
| Net profit for the year from continued operations attributable to the Parent Company's shareholders    | <u>921,411</u>      | <u>1,646,496</u>       |
| Net profit for the year from discontinued operations attributable to the Parent Company's shareholders | <u>292,490</u>      | <u>115,910</u>         |
| Net profit for the year attributable to the Parent Company's shareholders                              | <u>1,213,901</u>    | <u>1,762,406</u>       |
| Number of share outstanding  | <u>23,425,000</u>   | <u>234,250,000</u>     |
| Less: weighted average number of treasury shares   | <u>(22,281,538)</u> | <u>(22,281,538)</u>    |
| weighted average number of outstanding shares  | <u>211,968,462</u>  | <u>211,968,462</u>     |
| Earnings per share (Fils)  | <u>5.73</u>         | <u>8.31</u>            |
| Earnings per share from continued operations (Fils)  | <u>4.35</u>         | <u>7.77</u>            |
| Earnings per share from discontinued operations (Fils)   | <u>1.38</u>         | <u>0.54</u>            |

**23. General Assembly**

The Company's Board of Directors that held its meeting on 24 January 2019 proposed to distribute cash dividends 5% of the share capital, and remuneration to the Board of Directors amounting to KD 30,000 for the year ended 31 December 2018. These proposals are subject to the approval of the Shareholders' General Assembly.

The Company Shareholders' General Assembly that held its meeting on 19 March 2018 has approved to distribute cash dividends 6% of share capital and KD 35,000 as Board of Directors' remuneration for the financial year ended 31 December 2017.

**24. Segment reporting**

The Company is organized into functional divisions to manage its various lines of business. The Company operates in the State of Kuwait, United Arab Emirates and other countries. For the purposes of segment reporting, the Company's management has grouped its products and services into the following business segments:

- Real estate segment
- Investments segment
- Other segments

**Notes to Financial Statements for the financial year ended 31 December 2018**  
 (All amounts are shown in Kuwaiti Dinar)

**24. Segment reporting (Cont'd)**

Details of the above segments, which constitute the information on segment of continued and discontinued operations, are as follows:

|   | 2018        |            |           | Total      |
|---|-------------|------------|-----------|------------|
|   | Real estate | Investment | Others    |            |
| Properties rental income  | 1,497,615   | -          | -         | 1,497,615  |
| Properties operating costs  | (154,569)   | -          | -         | (154,569)  |
| Net rental income from properties   | 1,343,046   | -          | -         | 1,343,046  |
| Realized income from disposal of an investment property   | -           | 246,000    | -         | 246,000    |
| Change in fair value of investment properties   | -           | 152,592    | -         | 152,592    |
| Net operating income  | 1,343,046   | 398,592    | -         | 1,741,638  |
| Other income  | -           | -          | 16,225    | 16,225     |
| Interest income   | -           | -          | 67,266    | 67,266     |
| Cash dividends  | -           | 132,725    | -         | 132,725    |
| Depreciation  | -           | -          | (835)     | (835)      |
| General and administrative expenses   | -           | -          | (417,660) | (417,660)  |
| Finance charges   | -           | -          | (88,214)  | (88,214)   |
| Foreign exchange difference gains   | -           | -          | (149,673) | (149,673)  |
| Contribution to KFAS  | -           | -          | (11,713)  | (11,713)   |
| NLST tax  | -           | -          | (32,956)  | (32,956)   |
| Contribution to Zakat   | -           | -          | (12,832)  | (12,832)   |
| Board of Directors' remuneration  | -           | -          | (30,000)  | (30,000)   |
| Non-controlling interests   | -           | -          | (70)      | (70)       |
| Net profit (loss) for the year from continued and discontinued operations attributable to the Parent Company's shareholders | 1,343,046   | 531,317    | (660,462) | 1,213,901  |
| Other information:  |             |            |           |            |
| Segment assets  | 20,881,421  | 6,533,612  | 2,233,135 | 29,648,168 |
| Segment liabilities   | 850,000     | -          | 722,741   | 1,572,741  |

**Notes to Financial Statements for the financial year ended 31 December 2018**

(All amounts are shown in Kuwaiti Dinar)

**24. Segment reporting (Cont'd)**

|   | 2017 (consolidated) |                  |                  | Total             |
|---|---------------------|------------------|------------------|-------------------|
|   | Real estate         | Investment       | Others           |                   |
| Properties rental income  | 1,695,622           | -                | -                | 1,695,622         |
| Properties operating costs  | (164,014)           | -                | -                | (164,014)         |
| Net rental income from properties   | 1,531,608           | -                | -                | 1,531,608         |
| Realized income from disposal of an associate   | -                   | 581,074          | -                | 581,074           |
| Company's share in associate's results  | -                   | 202,339          | -                | 202,339           |
| Change in fair value of investment properties   | -                   | 176,609          | -                | 176,609           |
| Net operating income  | 1,531,608           | 960,022          | -                | 2,491,630         |
| Other income  | -                   | -                | 23,182           | 23,182            |
| Interest income   | -                   | -                | 37,494           | 37,494            |
| Cash dividends  | -                   | 126,900          | -                | 126,900           |
| Depreciation  | -                   | -                | (878)            | (878)             |
| General and administrative expenses   | -                   | -                | (424,875)        | (424,875)         |
| Impairment of available for sale investments  | -                   | (257,429)        | -                | (257,429)         |
| Finance charges   | -                   | -                | (150,791)        | (150,791)         |
| Foreign exchange difference gains   | -                   | -                | 31,411           | 31,411            |
| Contribution to KFAS  | -                   | -                | (14,866)         | (14,866)          |
| NLST tax  | -                   | -                | (48,311)         | (48,311)          |
| Contribution to Zakat   | -                   | -                | (16,032)         | (16,032)          |
| Board of Directors' remuneration  | -                   | -                | (35,000)         | (35,000)          |
| Non-controlling interests   | -                   | -                | (29)             | (29)              |
| Net profit (loss) for the year from continued and discontinued operations attributable to the Parent Company's shareholders | <u>1,531,608</u>    | <u>829,493</u>   | <u>(598,695)</u> | <u>1,762,406</u>  |
| Other information:  |                     |                  |                  |                   |
| Segment assets  | <u>23,772,829</u>   | <u>2,561,720</u> | <u>4,893,914</u> | <u>31,228,463</u> |
| Segment liabilities   | <u>2,422,295</u>    | <u>-</u>         | <u>677,650</u>   | <u>3,099,945</u>  |

**25. Legal claims**

There are certain lawsuits brought by and against the Company, the outcome of which cannot be determined until being finally adjudicated by the court. In the opinion of the Company's management, there will be no material adverse impact on the Company's financial statements. Therefore, no provisions were made in the Company's records due to sufficiency of the currently recorded provisions against those claims as at the reporting date.