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

Consolidated Financial Statements
For The Financial Year ended 31 December 2019
And
Independent Auditor's Report

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Contents

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Independent Auditor's Report
To Shareholders of
Aqar Real Estate Investments Company – K.S.C. (Public)

Report on the audit of the Consolidated Financial Statements

We have audited the consolidated financial statements of Aqar Real Estate Investments Company - K.S.C. (Public) "the Parent Company" and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with ethical requirements that are relevant to our audit of the consolidated 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.

Emphasis of matter

With reference to note (9) of the consolidated financial statements regarding the group's investment in 'Aqar Al Khalijiya General Trading & Contracting Company W.L.L.' an associate accounted by equity method, recorded based solely on unaudited financial reports provided by the associate's management as of 31 December 2019.

Key Audit Matters

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

Valuation of investment properties

As at 31 December 2019, the investment properties were KD 17,676,040 equal to 51% of the total assets. Disclosures related to the investment properties are set out in Notes 3.3 and 10 to the consolidated 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 Group had the investment properties valuated by licensed independent valuers who are not related to the Group. Such valuers have the qualifications and experience required to perform the valuations in the markets where the Group 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 Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. The Group's 2019 annual report is expected to be made available to us after the date of auditors' report.

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

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

If, based on the work we have performed on the 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 consolidated financial Statements

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

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

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

Auditor's Responsibility for the Audit of Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are 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 consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, and its Executive Regulations, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and its Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of association, as amended, have occurred during the financial year ended 31 December 2019 that might have had a material effect on the business of the Group or on its consolidated financial position.

بيكر تلي
تأكيد وضرائب واستشارات
Assurance, tax and consulting
Baker Tilly

Mohammed Hamad Al Sultan
License No. 100-A
Mohammed Al Sultan and Partners
Independent Member of Baker Tilly International
State of Kuwait, 18 February 2020

Consolidated Statement of Financial Position as at 31 December 2019
(Al amounts are shown in Kuwaiti Dinar)

	Note	2019	2018
Assets			
Cash and cash equivalents	6	**3,315,222**	2,052,470
Other debit balances	7	**192,730**	178,488
Financial assets at fair value through other comprehensive income	8	**3,567,530**	4,944,174
Investment in an associates	9	**9,998,764**	1,589,438
Investment properties	10	**17,676,040**	20,881,421
Property and equipment		**3,559**	2,177
Total assets		**34,753,845**	29,648,168
Equity and liabilities			
Liabilities			
Term loans	11	**4,776,000**	850,000
Accounts payable and other credit balances	12	**724,000**	588,207
Provision for end of service indemnity	13	**58,687**	134,534
Total liabilities		**5,558,687**	1,572,741
Equity			
Share capital	14	**23,425,000**	23,425,000
Share premium		**227,567**	227,567
Treasury shares	15	**(1,893,152)**	(1,861,595)
Treasury shares reserve		**8,523**	8,523
Statutory reserve	16	**2,063,437**	1,794,539
Voluntary reserve	17	**2,063,437**	1,794,539
Change in fair value reserve through other comprehensive income		**(280,642)**	7,624
Retained earnings		**3,580,988**	2,679,230
Total equity		**29,195,158**	28,075,427
Total liabilities and equity		**34,753,845**	29,648,168

Dhari Abdulaziz AlNassar

Chairman

Khaled Abdullah Mirza

CEO

Aqar Real Estate Investments Company – K.S.C. (Public)
And its subsidiary

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the financial year ended 31 December 2019
(Al amounts are shown in Kuwaiti Dinar)

	Note	2019	2018
Continued operations			
Income			
Properties rental income		**1,364,472**	1,438,345
Properties operating costs		**(122,623)**	(140,962)
Net operating profit		**1,241,849**	1,297,383
Realized gain on sale of investment property		**530,000**	-
Gain on acquisition of associate	9	**2,656,368**	-
Other income		**12,371**	16,225
Interest income		**32,047**	65,389
Cash dividends		**334,249**	132,725
(Loss) / gain on foreign currency exchange differences		**5,239**	(149,673)
Group's share in an associate's results	9	**(13,400)**	-
Change in fair value of investment properties	10	**(1,557,381)**	152,592
Total income		**3,241,342**	1,514,641
Expenses			
General and administrative expenses	19	**(446,195)**	(416,618)
Finance costs		**(87,751)**	(88,214)
Expected credit losses		**(17,093)**	
Depreciation		**(1,327)**	(827)
Total expenses		**(552,366)**	(505,659)
Profit for the year from continuing operations and before contributions and discontinued operations		**2,688,976**	1,008,982
Discontinued operations			
Profit for the year from discontinued operations		**-**	292,490
Profit for the year before contributions		**2,688,976**	1,301,472
Contribution to KFAS		**(24,201)**	(11,713)
National Labor Support Tax		**(64,690)**	(32,956)
Zakat		**(25,126)**	(12,832)
BOD's remuneration		**(40,000)**	(30,000)
Net profit for the year		**2,534,959**	1,213,971
Attributable to:			
Parent Company's shareholders		**2,534,959**	1,213,901
Non-controlling interests		**-**	70
Net profit for the year		**2,534,959**	1,213,971
Earnings per share (Fils)	20	**11.98**	5.73
Earnings per share from continued operations (Fils)	20	**11.98**	4.35
Earnings per share from discontinued operations (Fils)	20	**-**	1.38
Other comprehensive income for the year			
Change in fair value for financial assets at fair value through other comprehensive income		**(323,829)**	7,624
Total comprehensive income for the year		**2,211,130**	1,221,595
Attributable to:			
Parent Company's shareholders		**2,211,130**	1,221,525
Non-controlling interests		**-**	70
Net profit for the year		**2,211,130**	1,221,595

The accompanying notes on pages 5 to 32 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the financial year ended 31 December 2019

(Al 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 2017	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	-	-	-	-	-	-	-	(1,747)	(1,747)	-	(1,747)
Balance at 1 January 2018	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
Net profit for the year	-	-	-	-	-	-	-	1,213,901	1,213,901	70	1,213,971
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	-	-	-	-	-	-	-	-	-	(1,104)	(1,104)
Cash dividends (Note 21)	-	-	-	-	-	-	-	(1,271,811)	(1,271,811)		(1,271,811)
Transferred to reserves	-	-	-	-	130,147	130,147	-	(260,294)	-	-	-
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**
Net profit for the year	-	-	-	-	-	-	-	**2,534,959**	**2,534,959**	-	**2,534,959**
Total Other comprehensive income for the year	-	-	-	-	-	-	**(323,829)**	-	**(323,829)**	-	**(323,829)**
Loss from sale of finvnial assets at fair value thoogh OCI	-	-	-	-	-	-	**35,563**	**(35,563)**	-	-	-
Purchase of Treasury Shares	-	-	**(31,557)**	-	-	-	-	-	**(31,557)**	-	**(31,557)**
Cash dividends (Note 21)	-	-	-	-	-	-	-	**(1,059,842)**	**(1,059,842)**	-	**(1,059,842)**
Transferred to reserves	-	-	-	-	**268,898**	**268,898**	-	**(537,796)**	-	-	-
Balance at 31 December 2019	**23,425,000**	**227,567**	**(1,893,152)**	**8,523**	**2,063,437**	**2,063,437**	**(280,642)**	**3,580,988**	**29,195,158**	**-**	**29,195,158**

The accompanying notes on pages 5 to 32 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the financial year ended 31 December 2019
(Al amounts are shown in Kuwaiti Dinar)

	2019	2018
Cash flows from operating activities:		
Net profit for the year from continued operations	**2,534,959**	921,481
Net profit for the year from discontinued operations	**-**	292,490
Net profit for the year	**2,534,959**	1,213,971
Adjustments:		
Group's share in an associate's results	**13,400**	-
Change in fair value of investment properties	**1,557,381**	(152,592)
Interest income	**(32,047)**	(67,266)
Cash dividends	**(334,249)**	(132,725)
Realized profits on disposal of investment properties	**(530,000)**	(246,000)
Gain on acquisition of associate	**(2,656,368)**	-
Depreciation	**1,327**	835
Finance charges	**87,751**	88,214
Loss/ (Profit) of foreign exchange differences	**(5,239)**	149,673
Provision for end of service indemnity	**19,118**	19,050
	656,033	873,160
Change in operating assets and liabilities		
Other debit balances	**15,976**	165,119
Accounts payable and other credit balances	**136,755**	121,312
Paid for purchase of investment properties	**-**	(660,000)
Proceeds from disposal of investment properties	**2,200,000**	3,950,000
Employees End of Services Paid	**(94,965)**	-
KFAS Contribution Paid	**(14,866)**	-
National labor support tax paid	**(32,614)**	(48,311)
Zakat paid	**(12,695)**	(16,032)
BOD's remuneration paid	**(30,000)**	(35,000)
Net cash generated from operating activities	**2,823,624**	4,350,248
Cash flows from investing activities:		
Interest income received	**32,047**	67,266
Paid for purchase of financial assets at fair value through other comprehensive income	**(116,723)**	(4,118,649)
Paid for purchase of share in an associate	**(5,766,358)**	-
Proceeds from sale of financial assets at fair value through other comprehensive income	**1,170,590**	-
Cash dividends	**334,249**	132,725
Paid for purchase of property and equipment	**(2,709)**	(1,495)
Net cash used in from investing activities	**(4,348,904)**	(3,920,153)
Cash flows from financing activities:		
Net movement in term loans	**3,926,000**	(1,572,295)
Finance charges paid	**(87,751)**	(88,214)
Dividends paid	**(1,050,217)**	(1,268,868)
Net cash generated from / (used in) financing activities	**2,788,032**	(2,929,377)
Net increase / (decrease) in cash and cash equivalents	**1,262,752**	(2,499,282)
Cash and cash equivalents at the beginning of the year	**2,052,470**	4,551,752
Cash and cash equivalents at the beginning of the year (Note 6)	**3,315,222**	2,052,470

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1- Incorporation and activity

Aqar Real Estate Investments Company - K.S.C. (Public) "the Parent 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 Parent Company was incorporated under Memorandum of Incorporation No. 403/ Volume 1 dated October 9, 1997 and its subsequent amendments, the last of which is recorded in the commercial registry under No. 645 dated December 15, 2014.

The Parent Company is listed on the Kuwait Bourse on April 11, 2005.

The main objectives for which the Parent Company is incorporated are:

- All real estate activities including buying, acquiring lands and properties for purpose of 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, and it 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 Parent Company 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 Parent Company through investing the same in financial portfolios managed by specialized companies;
- Acquiring, buying and selling shares and bonds of real estate companies for the benefit of the Parent 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 Parent Company, including maintenance work, execution of civil, mechanical, electrical, elevators, and air conditioning work to ensure the protection and safety of the 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 sports projects and shops at all levels including all original and auxiliary relate to them along with its services.
- Organizing the real estate exhibitions related to Parent 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 Parent Company's objectives after getting necessary license.
- 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.
- Obtain agencies for all companies related to Parent Company activities such as hotels, parks, buildings materials and supplies for all of them.

The Parent 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 Parent Company may have an interest or in any way associate itself with other entities engaged in similar activities or that may assist the Parent Company in achieving its objectives in State of Kuwait or abroad. The Parent Company may establish, participate in, acquire these institutions, or have them affiliated to it.

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

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

The Parent Company's Board of Directors authorized the consolidated financial statements for issue on 18 February 2020. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2- Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs). These consolidated financial statements are prepared under the historical cost convention except for financial assets at fair value through other comprehensive income 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 2019 related to the Group as follows:

  <u>IFRS 16 – Leases</u>

  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The only exceptions are short-term (i.e., where the lease term is 12 months or less) and low-value 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. The Group, as a lessee, has adopted the accounting policies for its leases under IFRS 16 as explained below.

  The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

  The adoption of IFRS 16 did not result material impact on the consolidated financial position of the Group and its consolidated financial performance.

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

  At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRSs that issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRSs - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 Business Combinations relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

2- Basis of preparation and significant accounting policies (continued)

2.3 Financial instruments

The Group classifies its financial instruments as financial assets and financial liabilities. Financial assets and financial liabilities are recognized when the Group 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 Group 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 consolidated statement of financial position include cash and cash equivalents, financial assets at fair value through other comprehensive income, accounts receivable and term loan.

2.3.1 Financial assets

Evaluation of business model

The Group 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 Group'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 Group commits to purchase or sell the asset / settlement date, the date on which the asset is delivered to the Group or purchased by the Group. 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 Group in either of the following cases: (a) If all the risks and rewards of ownership of the financial assets are transferred by the Group; 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 Group 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 are 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.

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.

2- Basis of preparation and significant accounting policies (continued)

2.3.1 Financial assets (continued)

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

Equity instruments at FVOCI

Upon initial recognition, the Group 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 consolidated 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 Group 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 consolidated statement of changes in equity.
The Group classifies quoted and unquoted equity investments, within financial assets, at FVOCI in the consolidated statement of financial position.

Impairment of financial assets

IFRS 9 requires the Group 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 Group expects to receive. The deficit is approximately discounted to the original effective interest rate on that asset.
For debt instruments classified as related party balances, the Group 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 Group 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 Group 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- Basis of preparation and significant accounting policies (continued)

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 Group 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 consolidated 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 consolidated 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.

3- Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiary:

Name of subsidiary	Country of Incorporation	Main activities	Ownership percentage (%) 2019	2018
Aqar Middle East Real Estate Co.	State of Kuwait	Buying and selling lands, real estate, stocks and bonds	**100%**	-

On October 29, 2019, the parent company established "Aqar Middle East Real Estate – Sole Proprietorship Company (SPC)". The Group's financial statements have been consolidated based on financial statements prepared by the subsidiary's management as of December 31, 2019.

The consolidated financial statements include the financial statements of the Parent Company and the companies controlled by the Parent 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. Profit or Loss and each item of the other comprehensive revenues are distributed to the shareholders of the Parent Company and non-controlling parties. The Comprehensive income of the subsidiaries is distributed to shareholders of the Parent Company and non-controlling parties even this leads to deficit balance in the non-controlling shares.

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.

3- Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

The change in the Group'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 Group's shareholders. When the Group 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 Parent 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 Group or transferred to it through the acquiree's former owners and the equity instruments issued by the Group in exchange acquisition. In general, acquisition-related costs are recognized in the consolidated 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. 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 consolidated 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 consolidated statement of income and other comprehensive income are reclassified to the consolidated statement of income if such treatment is deemed appropriate having disposed.

3- Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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 Group 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.

Business results, assets and liabilities of associates and joint ventures are carried in these consolidated 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 consolidated statement of financial position at cost as adjusted subsequently for changes in the Group's share of the profits or losses and any other comprehensive income of associates or joint venture. When the Group'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 Group's net investment in the associate or joint venture), the Group ceases to recognize its share of losses. Additional losses are recognized only to the extent that the Group 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 Group'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 Group'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 Group 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 Group's interest in the associate or joint venture.

3- Significant accounting policies (continued)

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 consolidated 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 consolidated 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. 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 consolidated 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 (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 Group 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 Group 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.

3- Significant accounting policies (continued)

3.5 Impairment of assets (continued)

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.

3.7 Dividends to shareholders

The Group 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 Group. 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. On-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 consolidated statement of profit or loss.
Dividends approved after the reporting date are disclosed as subsequent event after the date of consolidated statement of financial position.

3.8 Treasury shares

Treasury shares comprise shares that have been issued, subsequently reacquired by the Parent 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 Group 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- Significant accounting policies (continued)

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 Group 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 Group's activities. Revenue is shown after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group'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 Group depends on historical results, taking into consideration the type of customer, the type of transaction and the requirements of each arrangement.

- <u>Interest income</u>
  Interest income is recognized on a time proportion basis using the effective interest method. When accounts receivable are impaired, the Group 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 Group'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 consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
  - The Group's accounts receivable are not subject to future impairment;
  - The Group 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- Significant accounting policies (continued)

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.

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 consolidated statement of other comprehensive income.

3.14 Segment reporting

A segment is a distinguishable component of the Group, which is engaged in business activities resulting in earning revenue and incurring costs. Operating segments are used by the Group'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 Group 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 Group currently does not use derivative financial instruments to manage its exposure to these risks.

a. <u>Interest rate risk:</u>
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 Group's profit through the impact on floating rate of borrowings and deposits:

4- Financial risk management (continued)

	2019		
	Increase (Decrease) in interest rate	**Balance (Kuwaiti Dinar)**	**Impact on consolidated statement of profit or loss and other comprehensive income (Kuwaiti Dinar)**
Short-term bank deposits	**±0.5%**	**-**	**-**
Term loans	**±0.5%**	**4,776,000**	**23,880**
			23,880

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

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 Group to credit risk consists principally of cash at banks, short-term bank deposits, accounts receivable and due from related parties. The Group'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 Group'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 Group is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group 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:

	2019		
	Increase (Decrease) against Kuwaiti Dinar	**Impact on consolidated statement of profit or loss (Kuwaiti Dinar)**	**Impact on other comprehensive income (Kuwaiti Dinar)**
AED	**±5%**	**(200,058)**	**(200,058)**
GBP	**±5%**	**71,532**	**71,532**
USD	**±5%**	**76,141**	**76,141**
		±52,385	**±52,385**

4- Financial risk management (continued)

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

d. Liquidity risk:

Liquidity risk arises when the Group encounters difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group 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 Group'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

	2019			
	1-3 months	**3-12 months**	**Above 1 year**	**Total**
Term loans	**122,205**	**366,615**	**4,287,180**	**4,776,000**
Accounts payable and other credit balances	**292,793**	**265,841**	**165,366**	**724,000**
	414,998	**632,456**	**4,452,546**	**5,500,000**

	2018			
	1-3 months	3-12 months	Above 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
	210,210	528,031	699,966	1,438,207

Capital risk management

The Group 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 Group'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:

	2019	2018
Total debts	**4,776,000**	850,000
Less: cash and cash equivalents	**(3,315,222)**	(2,052,470)
Net debts	**(1,460,778)**	(1,202,470)
Total equity	**29,195,158**	28,075,427
Total share capital	**27,734,380**	26,872,957

5- Critical accounting judgments, estimates and assumptions

The Group makes judgments, estimates and assumptions concerning future reasons. The preparation of consolidated 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 Group'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 Group 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 Group 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 Group'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 Group'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 Group'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 Group'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.

- Classification of financial assets
  The Group 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 Group classifies financial assets as "held to maturity" if the Group 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:

- Provision for expected credit loss of receivables:
  The Group uses a provision matrix to calculate ECLs of receivables.. Provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geographic region, type of services, customer, and type). The provision matrix is initially based on the Group's historical observed default rates.
  The Group will calibrate the matrix to adjust the historical credit loss experience with forward – looking information.

5- Critical accounting judgments, estimates and assumptions (continued)

- Valuation of investment properties
  The Group carries its investment properties at fair value, with change in fair values being recognized in the consolidated 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.

- 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 Group 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

	2019	2018
Cash in hand and at banks	**3,315,222**	852,470
Short-term bank deposits	-	1,200,000
	3,315,222	2,052,470

The effective interest rate on short term bank deposits ranges from 1.375% to 2.9% (2018: from 1.125% to 2.625%) per annum; these deposits have an average maturity of 90 days (2018: 90 days).

7- Other debit balances

	2019	2018
Prepaid expenses and others	**16,514**	17,417
Accrued revenues	**86,431**	87,981
Due from brokerage company	**47,626**	44,325
Refundable deposits	**15,618**	20,404
Staff receivables	**26,541**	3,392
Due from contractors - advance payment	-	4,969
	192,730	178,488

8- Financial assets at fair value through other comprehensive income

	2019	2018
Quoted shares – local	-	283,298
Unquoted shares – local	**322,626**	322,626
Unquoted shares – foreign	**3,160,097**	4,103,443
Investment fund – foreign	**84,807**	234,807
	3,567,530	4,944,174

The fair value of financial assets at fair value through other comprehensive income was determined based on valuation levels mentioned in note (23).

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

	2019	2018
KWD	**322,626**	605,924
GBP	**1,422,079**	2,187,464
USD	**1,607,633**	1,761,402
BHD	**215,192**	389,384
	3,567,530	4,944,174

9- Investment in associates

			Ownership percentage (%)		Amount	
Name of associate	Country of Incorporation	Main activities	**2019**	2018	**2019**	2018
Aqar Al Khalijiya General Trading & Contracting Company W.L.L.	State of Kuwait	General Trading	**21%**	21%	**1,576,038**	1,589,438
Al Manar Financing & Leasing Co. K.S.C.C	State of Kuwait	Financing Activities	**29%**	-	**8,422,726**	-
					9,998,764	1,589,438

Movement during the year is as follows:

	2019	2018
Balance at the beginning of year	**1,589,438**	1,589,438
Group's share in associate's results	**(13,400)**	-
Acquisition of a share in an associate	**8,422,726**	-
Balance at the end of year	**9,998,764**	1,589,438

During the year, the Group acquired 29% of the shares of Al-Manar Financing and Leasing Company K.S.C.C for an amount of K.D 5,766,358 , The investment in that associate was recorded at fair value as at the date of acquisition, The fair value of the associate amounted to KWD 8,422,726, which resulted a gain of acquisition of KWD 2,656,368 that was included in the consolidated statement of profit or loss and other comprehensive income for the year ending in December 31, 2019.

10- Investment properties

	2019	2018
Balance at the beginning of year	**20,881,421**	23,772,829
Additions	-	660,000
Disposals	**(1,648,000)**	(3,704,000)
Change in fair value from continued activities	**(1,557,381)**	-
Change in fair value from discontinued activities	-	152,592
Balance at the end of year	**17,676,040**	20,881,421

During the year, the Group sold an Investment property which have constructed on right of utilization for plots No. 1410 and 1411 with an area of 2,000 square meters in Alrai industrial area under No. 169 from the Public Authority of Industry. Which resulted a gain of KD 530,000, recognized in the consolidated statement of profit or loss and other comprehensive income.

There are investment properties at carrying value of KD 9,724,434 that have pledged to local and foreign banks against term loans (Note 11).

Fair value of investment properties was determined by accredited independent valuation experts with professional experience and efficiency using recognized valuation techniques and principles. The Group 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.

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	**17,676,040**	-	**17,676,040**
Commercial investment properties	Income capitalization	-	-	-
		17,676,040	-	**17,676,040**

As of 31 December 2019, certain investment properties with a carrying value of KD 2,362,000 (2018: KD 2,360,000) are pledged in favor of local banks against term loans (Note 11).

11- Term loans

	2019	2018
Term loans – current portion	**488,820**	200,000
Term loans – non-current portion	**4,287,180**	650,000
Total term loans	**4,776,000**	850,000

The term loans include loans extended to the Group 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 2,362,000 (2018: KD 2,360,000).

12- Accounts payable and other credit balances

	2019	2018
Trade payables	**1,576**	11,774
Due to contractors	**-**	121,503
Rentals received in advance	**96,749**	125,820
Accrued expenses	**294,031**	56,198
Dividend payable	**97,926**	88,301
Leasees' deposits	**49,340**	49,966
NLST payable	**65,813**	33,737
Board of Directors' remunerations payable	**40,000**	30,000
Accrued staff leave	**16,524**	30,633
Zakat payable	**25,264**	12,833
KFAS payable	**36,777**	27,442
	724,000	588,207

13- Provision for end of service indemnity

	2019	2018
Balance at the beginning of the year	**134,534**	129,171
Charged for the year	**19,118**	19,050
Payments during the year	**(94,965)**	(13,687)
Balance at the end of the year	**58,687**	134,534

14- Share capital

The Group's authorized, issued and paid-up share capital comprises 234,250,000 shares (2018: 234,250,000 shares) with nominal value of 100 Kuwaiti fils each, and all shares are cash.

15- Treasury shares

	2019	2018
Number of treasury shares (share)	**22,675,538**	22,281,538
Percentage to issued shares (%)	**9.68%**	9.51%
Market value (KD)	**1,814,043**	1,363,630
Cost (KD)	**1,893,152**	1,861,595

The Parent 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 consolidated financial statements. Such amount will not be available for distribution during treasury shares holding period. Treasury shares are not pledged.

16- Statutory reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to the Parent 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 Parent Company's Articles of Association.

17- Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent 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.

18- Related party transactions

In the normal course of its business, the Group 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 Group's management. Significant related party transactions and balances are as follows:

Transactions included in consolidated statement of profit or loss and other comprehensive income:

Key management's benefits:

	2019	2018
Short term benefits	**126,442**	135,584
Post-employment benefits	**9,561**	13,154
BOD's remuneration	**40,000**	30,000
	176,003	178,738

19- General and administrative expenses

General and administrative expenses include staff costs amounting to KD 279,509 (2018: KD 304,249).

20- 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:

	2019	2018
Net profit for the year from continuing operations attributable to the Parent Company's shareholders	**2,534,959**	921,411
Net profit for the year from discontinued operations attributable to the Parent Company's shareholders	**-**	292,490
Net profit for the year attributable to the Parent Company's shareholders	**2,534,759**	1,213,901
Number of share outstanding	**234,250,000**	234,250,000
Less: weighted average number of treasury shares	**(22,675,538)**	(22,281,538)
weighted average number of outstanding shares	**211,574,462**	211,968,462
Earnings per share (Fils)	**11.98**	5.73
Earnings per share from continued operations (Fils)	**11.98**	4.35
Earnings per share from discontinued operations (Fils)	**-**	1.38

21- General Assembly

The Parent Company's Board of Directors that held its meeting on 18 February 2020 proposed to distribute cash dividends 5% of the share capital, and remuneration to the Board of Directors amounting to KD 40,000 for the year ended 31 December 2019. These proposals are subject to the approval of the Shareholders' General Assembly.
The Company Shareholders' General Assembly meeting held on March 20, 2019 agreed to distribute cash dividends of 5% of nominal value per share (Fils5 per share) after deducting treasury shares and Board of Directors remuneration of KD 30,000 for the financial year ended December 31, 2018.

22- Segment reporting

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

- Real estate segment
- Investments segment
- Other segments

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

	2019			
	Real estate	Investment	Others	Total
Properties rental income	1,364,472	-	-	1,364,472
Properties operating costs	(122,623)	-	-	(122,623)
Net operating profit	1,241,849	-	-	1,241,849
Realized income from disposal of an investment property	-	530,000	-	530,000
Gain on acquisition of associate	-	2,656,368	-	2,656,368
Other income	-	-	12,371	12,371
Interest income	-	-	32,047	32,047
Cash dividends	-	334,249		334,249
Foreign exchange difference gains	-	-	5,239	5,239
Group's share in an associate's results	-	(13,400)	-	(13,400)
Change in fair value of investment properties	-	(1,557,381)	-	(1,557,381)
Total income	1,241,849	1,949,836	49,657	3,241,342
General and administrative expenses	-	-	(446,195)	(446,195)
Finance costs	-	-	(87,751)	(87,751)
Expected credit losses	-	-	(17,093)	(17,093)
Depreciation	-	-	(1,327)	(1,327)
Contribution to KFAS	-	-	(24,201)	(24,201)
NLST tax	-	-	(64,690)	(64,690)
Contribution to Zakat	-	-	(25,126)	(25,126)
Board of Directors' remuneration	-	-	(40,000)	(40,000)
Total expenses and contributions	-	-	(706,383)	(706,383)
Net profit for the year	1,241,849	1,949,836	(656,726)	2,534,959
Other information:				
Segment assets	17,676,040	13,566,294	3,511,511	34,753,845
Segment liabilities	4,776,000	-	782,687	5,558,687

	2018			
	Real estate	Investment	Others	Total
Properties rental income	1,497,615	-	-	1,497,615
Properties operating costs	(154,569)	-	-	(154,569)
Net operating profit	1,343,046	-	-	1,343,046
Realized income from disposal of an investment property	-	246,000	-	246,000
Other income	-	-	16,225	16,225
Interest income	-	-	67,266	67,266
Cash dividends	-	132,725	-	132,725
Foreign exchange difference gains	-	-	(149,673)	(149,673)
Change in fair value of investment properties	-	152,592	-	152,592
Total income	1,343,046	531,317	(66,182)	1,808,181
General and administrative expenses	-	-	(417,660)	(417,660)
Finance costs	-	-	(88,214)	(88,214)
Depreciation	-	-	(835)	(835)
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)
Total expenses and contributions	-	-	(594,280)	(594,280)
Net profit	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

23- Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

- Level one: Quoted prices in active markets for quoted financial instruments.
- Level two: Quoted prices in an active market for identical instruments. Quoted prices for identical assets or liabilities in market that is not active. Valuation methods depend on observable inputs except for quoted prices for financial instruments.
- Level three: Valuation methods whose inputs not based on observable market data.

23- Fair value measurement (continued)

The table below gives information about how the fair values of the financial assets are determined:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and Key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/2019	**31/12/2018**				
Securities classified at FVTOCI						
Quoted equity securities – local	-	283,298	1	Last bid price		
Unquoted equity securities – local	**322,626**	322,626	3	Peer market price to book value of similar companies in the same industry	Peer market price to book value factor and discount for lack of market availability	Changes in market multiple and discount rate will result in changes in fair values
Unquoted equity securities – foreign	**3,160,097**	4,103,443	3	Peer market price to book value of similar companies in the same industry	Peer market price to book value factor and discount for lack of market availability	Changes in market multiple and discount rate will result in changes in fair values
Investment fund – foreign	**84,807**	234,807	1	Last bid price		

The fair value of other financial assets and financial liabilities approximately equals their book value as at consolidated financial statements date.