



ANNUAL REPORT  
2019





**Injazzat Real Estate Development Co. K.S.C.P.**

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HIS HIGHNESS  
**SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH**  
Amir of the State of Kuwait



HIS HIGHNESS  
**SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH**  
Crown Prince



HIS HIGHNESS  
**SHEIKH JABER AL-MUBARAK AL-SABAH**  
Prime Minister







## BOARD MEMBERS

**Mr. Mohamed Abdul Hameed Al Marzook**

Vice Chairman

**Mr. Mohammad Ibrahim Al Farhan**

Board Member and CEO

**Dr. Abdulmohsen Medeij Al Medeij**

Board Member

**Mr. Iesa Ahmed Khalaf**

Board Member

**Mr. Wafa Haidar Al Shehabi**

Board Member

**Mr. Ayman Abdullateef Al-Shaya**

Board Member

**Mr. Hamad Emad Al Saqer**

Board Member







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# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

## Esteemed Shareholders of Injazzat Real Estate Development Company KSCP

Peace be upon you,

Our Esteemed Shareholders

I would like to welcome you to the Ordinary General Assembly meeting for the fiscal year 2019 for Injazzat Real Estate Development Company where we would like to show appreciation of the efforts exerted by the former Chairman of the Board of Directors Mr. Faisal Fahad Al-Shayaa during his tenure as chairman of the Board, which lasted nearly seven years. During his tenure, the company accomplished many achievements and attained excellence at all levels, in addition to his membership on the company's Board of Directors since its establishment. His contributions were crucial in positioning the company among major real estate companies in the State of Kuwait and the region. We thereby wish him success in all his future endeavors.

Today, we present to you the annual report of Injazzat Real Estate Development Company for the fiscal year ending on December 31, 2019, which includes the audited annual financial statements and the corporate governance report.

As you know, 2019 has been a year of volatility around the world which has led to financial sector turbulences specifically in the region throughout 2019.

Despite this volatility which negatively affected the stability and sustainability of our operating revenues, Injazzat was keen to settle its liabilities. The company has also searched for new investment opportunities with the objective of structuring its assets and liabilities in a way that contributes to achieving a balance between revenues and expenses, and to continue to achieve the highest possible return on investments.

In its attempt to diversify its sources of income and enhance its investment, Injazzat commenced the development of a new tower in Sharq, Kuwait City called (Prime Tower) after going through the obstacles, obtaining the various licenses and approving the final plans, the construction of the tower is expected to be completed in 2021.

On a regional level, the company has commenced operating Catamaran Tower (I) in the Kingdom of Bahrain in addition to continuing the construction of Catamaran Tower (II), which is expected to be completed in the first half of 2020. The Catamaran Towers are iconic real estate project in the Kingdom of Bahrain.

In the United Arab Emirates, the company continued to operate and manage a number of properties with varying classifications and maintained the highest occupancy rates compared to their counterparts given the current conditions in the United Arab Emirates in general and the lack of demand for real estate projects in Dubai in particular.

During 2019 the company completed, rented and operated a labor accommodation building in the Jebel Ali area in the Emirate of Dubai and expects to complete and operate another building at the beginning of 2020.

The company also continued to build and construct other real estate projects, including a residential project in Al Maydan in Dubai and the construction of a commercial mall

in Jebel Ali. These projects are expected to be completed by 2020, and will contribute to an increase in the company's operational income .

Globally, the company looked for the best real estate investment opportunities in order to diversify and enhance its portfolio while emphasizing on the required balance between risk & return.

Considering what has been mentioned above regarding the obstacles in the real estate market, the company felt the need to take provisions in the amount of KWD 8.7 million, which led to the following results:

In terms of the financial position of the company, its assets amounted to 99.9 million Kuwaiti Dinars at the end of 2019 compared to 111.4 million Kuwaiti Dinars at the end of 2018, a 10.3% decrease. The decline is due to the company taking provisions on the values of some non-income-generating assets. Shareholders' equity amounted to 52.2 million Kuwaiti Dinars, compared to 61.6 million Kuwaiti Dinars in 2018, a 15.3% decline.

The company recorded negative revenues in 2019 in the amount of (2.1) million Kuwaiti Dinars compared to 9.1 million Kuwaiti dinars in 2018, a 123% decrease. As a result of this decline in the values of some of the assets, the company reduced expenses and operating costs to 4.8 million Kuwaiti Dinars compared to 5.1 million Kuwaiti Dinars in 2018, a 6% decline.

Accordingly, the company's losses in 2019 amounted to 6.9 million Kuwaiti Dinars compared to last year's (2018) profit of 4.1 million Kuwaiti Dinars, a 272% decline.

It should be noted that the Company would have recorded a profit of 2.8 million Kuwaiti Dinars had it not been for the provisions taken during the year.

The Board of Directors recommends to the General Assembly to transfer the voluntary reserve account amounting to 4,421,250 Kuwaiti Dinars to the retained profit account to cover these losses.

In conclusion, we express our sincere appreciation to you for your unlimited support to the members of the Board of Directors and the entire company in accomplishing the goals and objectives of the company. God willing We remain keen to continuing to work towards achieving greater, successes, and positive results in the coming years.

**Mohammed Abdul Hamid Al-Marzouq**

Vice Chairman







# CORPORATE GOVERNANCE REPORT

## 2019





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## **Introduction**

The Board of Directors of Injazzat Real Estate Development Company is keen on applying the instructions of the regulators and leading practices in the field of governance and compliance. Accordingly, the Company has been keen to enhance the role of the regulatory environment in the company and to ensure the extent of the Company's commitment, its departments and activities to the regulatory instructions and governance rules. This contributed to enhancing the principle of transparency and protecting shareholders and stakeholders' rights, promoting therefore the confidence in dealing and achieving effective control over the performance of the Company.

In light of this, the Board of Directors is pleased to submit to the shareholders throughout the annual report and the governance report the key achievements of the Company regarding the Company's commitment to the instructions of the Capital Markets Authority on Module Fifteen - Corporate Governance. The following is a summary of the Company's key achievements in applying corporate governance rules:

### First Rule: Building a Balanced Board Structure

- The Company Board of Directors consists of seven members as of 31 December 2019. The Company consists of a balanced Board structure that includes five non-executive members, an independent member and an executive member. In the Board formation, the Company considered the appointment of members with diverse academic qualifications and work experience. The following statement shows an overview of the Board formation, the academic qualifications and work experience of the members of the Company Board of Directors:

Name	Member's Classification	Academic Qualification and Work Experience	Date of Election / Appointment
Mr. Mohamed Abdul Hameed Al Marzook	Vice Chairman (non-executive)	<ul style="list-style-type: none"> <li>Bachelor in Finance – San Francisco University, USA.</li> <li>Working experience of more than 20 years in investment and real estate companies in Kuwait.</li> </ul>	15 May 2019
Mr. Mohammad Ibrahim Al Farhan	Board Member and CEO (executive)	<ul style="list-style-type: none"> <li>Bachelor in Accounting, San Jose University, California, USA.</li> <li>Experience in leadership and executive positions, in board members and in the representation of many companies for more than 30 years in the investment and real estate field.</li> </ul>	15 May 2019
Dr. Abdulmohsen Medejj Al Medejj	Board Member (non-executive)	<ul style="list-style-type: none"> <li>Holder of PhD in Philosophy - History from the University of Durham, England in 1983.</li> <li>Minister of Oil 1994-1996.</li> <li>Member of the National Assembly, 1992-2003.</li> <li>Deputy Prime Minister and Minister of Higher Education 2011-2014.</li> </ul>	07 January 2020

		<ul style="list-style-type: none"> <li>• Deputy Prime Minister and Minister of Commerce and Industry 2014-2015.</li> <li>• Working experience of more than 30 years in government agencies, banks and ministries in the State of Kuwait.</li> </ul>	
Mr. Iesa Ahmed Khalaf	Board Member (independent)	<ul style="list-style-type: none"> <li>• Master in Business Management, Dallas University, Texas, USA.</li> <li>• Experience in leadership positions for more than 30 years.</li> </ul>	15 May 2019
Mr. Wafa Haidar Al Shehabi	Board Member (non-executive)	<ul style="list-style-type: none"> <li>• Master in Mechanical Engineering - Wisconsin University, USA.</li> <li>• Working experience of more than 40 years in investment and industry.</li> </ul>	15 May 2019
Mr. Ayman Abdullateef Al-Shaya	Board Member (non-executive)	<ul style="list-style-type: none"> <li>• Bachelor in Mechanical Engineering – Kuwait University.</li> <li>• Having held leadership positions for more than 30 years.</li> </ul>	15 May 2019
Mr. Hamad Emad Al Saqer	Board Member (non-executive)	<ul style="list-style-type: none"> <li>• Bachelor of Finance – American University in Kuwait.</li> <li>• Working experience in the real estate and banking fields in the State of Kuwait.</li> </ul>	15 May 2019



The Board of Directors has met (7) times in 2019 Following is a statement of the Company Board of Directors meetings.

Name of the Board Member	Meeting (1) held on 23 April 2019	Meeting (2) held on 15 May 2019	Meeting (3) held on 29 July 2019	Meeting (4) held on 28 October 2019	Meeting (5) held on 19 November 2019	Meeting (6) held on 7 January 2020	Meeting (7) held on 3 March 2020
Dr. Abdulmohsen Medeij Al Medeij	-	-	-	-	-	√	√
Mr. Mohamed Abdul Hameed Al Marzook	√	√	-	√	√	√	√
Mr. Faisal Fahad Mohamad Al-Shaya **	√	√	√	√	-	-	-
Mr. Mohammad Ibrahim Al Farhan	√	√	√	√	√	√	√
Mr. Iesa Ahmed Khalaf	√	√	√	√	√	√	√
Mr. Wafa Haidar Al Shehabi	√	√	√	√	√	√	√
Mr. Ayman Abdullateef Al-Shaya	√	-	√	√	√	√	√
Mr. Hamad Emad Al Saqer	√	√	√	-	√	√	√

**\*\* Mr. Faisal Fahad Mohamad Al-Shaya submitted his resignation from the Board of Directors on 12/11/2019, where a general assembly was held to elect an integral member on 16 December 2019, in which Dr. Abdulmohsen Medeij Al Medeij was elected.**

#### **Applying the Requirements for Registration, Coordination and Maintaining Company Board Meetings Minutes**

The Company makes sure to register, coordinate and maintain the Board meetings minutes. The numbers of the minutes, the date and time of the start and end of the meeting, the names of the attendees and the place of the meeting are recorded in the said minutes. Discussions, deliberations, and resolutions taken by the Board during the meetings are also recorded in the minutes. All the present members sign the minutes of the meetings. The Secretary of the Board of Directors follows up the implementation of all resolutions of the Board of Directors in coordination with all

departments concerned with the Company. The minutes of each meeting shall be kept under a serial number according to the year in a special register for that, and it shall be kept securely inside the Company.

### **Second Rule: Allocation of Tasks and Responsibilities**

The Board of Directors shall carry out all the activities required by the Company's management in accordance with its objectives. This authority shall not be limited unless the law, Company article of association or the decisions of the General Assembly. The company shall have an approved manual of authorization of powers approved by the Board of Directors. This manual shall clearly define the powers of the Board of Directors and executive management. The Company shall also have a manual of the regulations of the Board of Directors and committees to ensure setting the duties and responsibilities properly. The Company shall also have job descriptions for members of the Board of Directors and executive management. The following is a brief summary of the duties of the Board of Directors and executive management:

#### **Responsibilities, Duties and Achievements of the Board of Directors:**

The duties and responsibilities of the Board of Directors include, but are not limited to, the following:

- To approve the important objectives, strategies, plans, and policies of the Company.
- To approve the annual estimated balance sheets as well as the interim and annual financial statements.
- To supervise the key capital expenditures of the Company in addition to the ownership of shares and assets and disposal thereof.
- To ensure the Company compliance with the policies and procedures which ensure the Company respect of the applicable internal regulations and rules.
- To ensure the accuracy and integrity of the data and information to be disclosed, in accordance with the applicable policies and disclosure and transparency work systems.
- To establish effective communication channels allowing the Company shareholders to be regularly updated with the Company's activities and any substantial developments.
- To form specialized committees according to a charter clarifying the committee's duration, validity and responsibilities, and how the council monitors them. The formation resolution shall also include naming the members, and defining their duties, rights and obligations, in addition to evaluating the performance, works of these committees as its main members.
- To ensure that the approved policies and regulations of the Company are transparent and clear in a manner that supports the decision-making process and the separation of authorities and powers between the Board of Directors and the executive management.
- To identify the powers authorized to the executive management, decision-making procedures and the duration of the authorization. The Board of Directors also shall set the issues on which it reserves the power to decide. The executive management shall submit periodic reports on its practices of authorized powers.

- To control and supervise the performance of members of the executive management and ensure that they perform all their duties.
- To identify the segments of compensation that shall be paid to employees such as fixed remuneration segment relevant to the performance.
- To appoint or remove any members of the executive management, including the CEO and equivalent.
- To develop a policy regulating the relationship with stakeholders in order to preserve their rights.
- To establish a mechanism to regulate transactions with related parties to mitigate conflicts of interest.
- To ensure periodically the effectiveness and adequacy of the internal control systems in force in the Company and its subsidiaries.
- To follow up the performance of each member of the Board of Directors and the executive management according to objective performance indicators.

During 2019, the Board of Directors has achieved its duties and responsibilities in accordance with the instructions of the regulators.

**The Executive Management of the Company has the following general responsibilities:**

1. To supervise the application of the Company's governance framework set by the Board of Directors.
2. To implement strategies and work plans approved by the Board of Directors that reflect long-term and short-term objectives and priorities.
3. To take full responsibility before the Board of Directors for all aspects of the Company's operations and performance.
4. To ensure the existence and application of appropriate operational planning, systems of risk management and financial control.
5. To follow up operations and financial results closely according to plans and budgets.
6. To representing the Company before major customers, professional societies, service delivery companies, and regulators.
7. To prepare transparent and comprehensive performance reports and submit them to the Board of Directors.
8. To comply with the requirements for regulators.
9. Other duties assigned to the executive management according to the directives of the board of directors and the instructions of the regulators.

### **Committees deriving from the Board of Directors**

The Board of Directors has formed specialized independent committees in order to assist the same in assuming the duties assigned thereto. The Board of Directors has approved the regulations of these committees. Their responsibilities have been set and their members have been appointed in accordance with the academic qualifications and working experiences required for each committee as follows:

#### **The Audit and Risk Management Committee:**

The Board of Directors has formed audit and risk management committee to play its supervising role that is to support the Board of Directors in verifying the adequacy of internal control systems, and to supervise internal audits and risk management, to verify the independence of external auditor of the Company, and to evaluate his performance.

#### **Forming the Audit and Risk Management Committee**

The Board of Directors formed the Audit and Risk Management Committee on May 15, 2019 as a permanent committee that will continue throughout the Board of Directors session (three years period).

The committee consists of three members; one of them is an "independent" member and two non-executive members. The committee held (5) meetings during 2019 as shown below:

Member's Name	Position	Meeting (1) held on 24 March 2019	Meeting (2) held on 23 April 2019	Meeting (3) held on 29 July 2019	Meeting (4) held on 28 October 2019	Meeting (5) held on 3 March 2020
Mr. Iesa Ahmed Khalaf	Committee Chairman (Independent Member)	✓	✓	✓	✓	✓
Mr. Wafa Haidar Al Shehabi	Committee Member	-	✓	✓	✓	✓
Mr. Hamad Emad Al Saqer	Committee Member	✓	✓	✓	-	✓
Mr. Saed Mahmoud Hamideh	Secretary	✓	✓	✓	✓	✓

## **Key Duties, Responsibilities, and Achievements of the Audit and Risk Management Committee**

- Recommendation to the Board of Directors to approve the appointment of the internal auditor and determine his fees.
- Recommendation to the Board of Directors to reappoint the external auditors; to determine their fees and to review their letters of appointment.
- Follow-up of the work of the external auditors and ensuring that they do not perform other business for the Company except for the services required by the auditing profession.
- Study of the external auditors observations on the financial statements of the Company and follow-up on what has been carried out thereon.
- Study of the accounting policies used and expression of the opinion and recommendation to the Board of Directors regarding the same.
- Evaluation of the adequacy of the internal control systems applied within the Company and preparation of a report containing the recommendations of the committee in this regard.
- Review of the periodic financial statements, presentation of them to the Board of Directors, expression of the opinion, and recommendation of their approval.
- Revision and approval of the audit plans proposed by the internal auditor, and provision of their comments thereon.
- Revision of the findings of the reports of the regulators and ensuring that the necessary procedures have been taken in this regard.
- Ensuring that the Company comply with relevant laws, policies, regulations and instructions.
- Revision of risk management strategies and policies.
- Revision of periodic risk reports and study of the most important risks facing the Company.



## **Second: The Nomination and Remuneration Committee**

The Nomination and Remuneration Committee aims to assist the Board of Directors to carry out its supervisory responsibilities and duties in order to ensure the nomination of the necessary competencies for the executive and administrative positions in the Company. The Committee also tends to verify that the said nominations are performed in accordance with an institutional framework characterized by efficiency and full transparency and that are mainly in the interest of the Company not to mention to achieve the objectives of the shareholders. Furthermore, the Committee ensures the integrity and validity of the Company's remunerations and allocations policy for members of the Board of Directors and Executive Management. Last, the Committee verifies that the Company's remuneration policy is fair and contributes mainly to recruiting human cadres with professional competence and high technical capabilities, in addition to establishing the principle of belonging to the Company.

### **Formation of the Nomination and Remuneration Committee**

The Board of Directors formed the Nominations and Remunerations Committee on 15 May 2019, as a permanent committee that will continue throughout the Board session (for a period of three years) and the committee consists of three members, including two non-executive members and an independent member.

The committee held one meeting during 2019 as shown below:

No.	Member's Name	Position	The First Meeting on 13 May 2019
1	Mr. Faisal Fahad Al-Shaya (Resigned from 12 November 2019)	Committee Chairman	✓
2	Mr. Iesa Ahmed Khalaf	Committee Member (Independent Member)	✓
3	Mr. Ayman Abdullateef Al-Shaya	Committee Member	✓

## **The most important functions and achievements of the Nomination and Remuneration Committee:**

- Supervision of the Board of Directors evaluation process, the members' self-evaluation and the CEO's performance evaluation.
- Determination of the required skills requirements appropriate to the membership of the Board of Directors and review of those needs annually
- Recruitment of applications for those wishing to occupy executive positions as needed and review of those applications.
- Assurance that the independent status of an independent member of the Board of Directors is not eliminated.
- Determination of the different segments of remunerations that will be awarded to employees.

### **Third Rule: Selection of Efficient Persons for the Board and Executive Management Membership**

#### **Formation of the Nomination and Remuneration Committee**

The committee consists of three members, two of whom are non-executive and one independent. The committee held one meeting during 2019.

#### **Members of the Board of Directors Remuneration**

The remuneration system for members of the Board of Directors includes the following:

#### **Members of the Board of Directors Remuneration**

This is calculated according to the provisions of Article 198 of the Companies Law No. 1/2016. The Law provides that "The aggregate of Members of the Board of Director's remunerations may not exceed ten percent of the net profits after deducting any depreciation and reserves and distributing profit dividends of at least five percent of the Company's capital to shareholders or any greater percentage, as may be stipulated by the Company Contract. Subject to the approval of the ordinary general assembly, the independent member of the Board of Directors may be exempt from the limits set for the remunerations. Members of the Board of Directors' remunerations shall be approved by the Company ordinary general assembly".

#### **Board of Directors' Committee Allowances:**

These allowances are paid in exchange for the efforts made by the members of the Board of Directors in return for their participation in the committee works and discharging the duties assigned by the Board to the committees according to the committees work regulations approved by the Board of Directors. A member of the Board of Directors is paid an annual cash allowance for his / her return in the works of every committee.

### **Other Allowances:**

Other cash allowances are the compensation of the Board assignment of some powers or responsibilities of the Board to any of its members under the provisions of Article 185 of the Companies Law No. 1/2016.

### **Executive management remuneration and incentives:**

The executive management remuneration is divided into two sections:

Fixed remuneration and allowances:

This group includes the fixed salaries, allowances and benefits paid to the executive management members according to their approved employment contracts and the internal policies of the Company.

Variable remuneration:

This group includes the amounts of variable remuneration related to performance and achievement of the Company objectives.

The Remuneration and Nomination Committee submits a suggestion to the Board of Directors on the amounts suggested to be paid to the executive management members.

The analysis of the remuneration paid to members of the Board of Directors and executive management during 2019 is as follows:

	<b>Total salaries and benefits KD</b>	<b>Attendance allowance of Board Committees KD</b>
<b>Members of the Board of Directors</b>	-	-
<b>Executive Management</b>	267,279	-

The Company has prepared a detailed report of all the amounts obtained by members of the Board of Directors and the executive management to be submitted to the Company's shareholders during the company's general assembly for approval. In addition, the Company maintains an accurate and detailed statement of all the salaries, remunerations and other financial benefits to which every member of the Board of Directors and the executive management is entitled. Shareholders have access to it.

## **Fourth Rule: Ensuring the Integrity of the Financial Reports**

### **Undertaking for the integrity and soundness of the prepared financial reports**

The executive management submits a written undertaking to the Board of Directors of Injazzat Real Estate Development Company on the integrity and soundness of the financial reports that covers all financial aspects including operational data and results. Reports are prepared in accordance with International Financial Reporting Standards. The Board of Directors shall also submit to the shareholders of the Company an undertaking for the integrity and soundness of the financial statements and reports related to the Company's activity.

### **Acknowledgment by the Chief Executive Officer**

### **And Deputy Director-General of the Department of Financial and Administration Affairs of the integrity and fairness of the financial statements**

We, the member of the Board of Directors, CEO, and Deputy Director-General of the Department of Financial and Administration Affairs, hereby acknowledge, according to what we have, that the consolidated financial statements of Injazzat Real Estate Development Company which consist of:

- Consolidated Statement of Financial Position as at 31 December 2019.
- Consolidated Statement of Income.
- Consolidated Statement of Changes in Equity.
- Consolidated Statement of Cash Flows.

For the year ended on that date and notes to the consolidated financial statements, including a summary of significant accounting policies, reflect fairly in all material respects the consolidated financial position as of December 31, 2019, and their consolidated financial performance and cash flows for the year ended on that date in accordance with International Financial Reporting Standards.










**Saed Mahmoud Hamideh**  
**Deputy General Manager**  
**Financial and Administration**



**Mohammad Ibrahim Al-Farhan**  
**Member of the Board**  
**Chief Executive Officer**

We, the Chairman and members of the Board of Directors of Injazzat Real Estate Development Company, acknowledge and pledge to the accuracy and integrity of the financial statements that the external auditor has been provided. We also acknowledge and pledge that the Company's financial reports approved by the Authority have been submitted in an appropriate and fair manner and in accordance with the international accounting standards applied in the State of Kuwait. The said reports reflect the financial position of the Company as of December 31, 2019, based on the information and reports received from us by the executive management and the auditor. Due diligence shall be carried out in order to verify the integrity and accuracy of these reports.

Name and Title	Signature
<b>Mr. Mohamed Abdul Hameed Al Marzook</b> Vice Chairman	
<b>Mr. Mohammad Ibrahim Al Farhan</b> Board Member and CEO	
<b>Dr. Abdulmohsen Medejj Al Medejj</b> Board Member	
<b>Mr. Wafa Haidar Al Shehabi</b> Board Member	
<b>Mr. Iesa Ahmed Khalaf</b> Board Member	
<b>Mr. Ayman Abdullateef Al-Shaya</b> Board Member	
<b>Mr. Hamad Emad Al Saqer</b> Board Member	

### **Formation of the Audit and Risk Management Committee:**

The Audit and Risk Committee confirms that it has reviewed the interim and annual financial statements and discussed them with the executive management before submitting them to the Board of Directors.

The Audit and Risk Committee meets regularly with the external auditors assigned to audit the Company's accounts to discuss accounting policies and annual financial statements, and the Committee held (5) meetings during 2019.

### **Emphasizing the independence and impartiality of the external auditor:**

Any services provided by the external auditor are submitted to the Audit and Risk Committee to verify the independence of the external auditor.

The Audit and Risk Committee has assessed the performance of the external auditor and recommended to the Board on the appointment or reappointment of the external auditor.

The Company has appointed M/s Grant Thornton – Al-Qatami, Al-Aiban & Partners and M/s. Ernst & Young Al Aiban - Al Osaimi & Partners as the Company auditors in the year ending 31 December 2019.

## **Fifth Rule: Setting Proper Risk Management and Internal Control Systems**

### **Risk Management Unit**

The Company has established a Risk Management Unit reporting directly to the Board of Directors. The Company organizational structure was approved after the amendment in a way that clarifies the establishment of the Risk Management Unit. The Board of Directors assigned an external consultative body to perform all the risk management duties.

### **Internal Audit Unit**

An independent internal audit unit reporting directly to the Audit and Risk Committee was established. The Board of Directors assigned a specialized office to perform all the Unit duties.

### **Formation of the Audit and Risk Management Committee**

The Risk Management Committee was reformed on 15 May 2019, which consists of 3 members of the Board of Directors, including an independent member. The Board has specified the term of membership of the committee members for the term of membership in the Board of Directors.



## **Internal Audit and Control Systems**

The Company relies on a set of control systems and control rules in place covering all its activities. Such systems and rules keep the Company's financial position integrity, the accuracy of its information and the efficiency of its operations from all aspects. The organizational structure of the Company reflects the dual controls and includes the proper determination of powers and responsibilities, complete separation of duties, non-conflict of interests, examination, dual control and dual signature. The Company has policies and work procedures for all departments.

## **Appointment of an independent office to review the performance of the internal audit**

The Company's Board of Directors has assigned an independent auditor to carry out examination and evaluation of the Company's internal control systems and submit it to the Board of Directors. The Capital Markets Authority is provided with a copy of the report annually.

## **Sixth Rule: Enhancement of the Professional Behavior and Ethical Values**

### **Criteria and factors of the professional and ethical behavior:**

The Company, represented by the Board of Directors, the executive management and all the staff, believes that the professional and ethical behavior constitutes one of the key factors of the Company success in achieving its objectives. Based on this belief, the Board of Directors has approved a policy outlining the criteria of the Company professional and ethical behavior including the criteria of professional and ethical behavior and the responsibilities of the Company, Board of Directors, the executive management and the staff. The Company also has a whistle-blowing policy setting a mechanism for the employees and stakeholders to report any incorrect or suspicious practices and setting the appropriate arrangement to ensure that an independent investigation is conducted. The executive management has also instructed Board of Directors to take the necessary procedures towards the application of criteria of professional and ethical behavior. In implementation of their obligations to the Company, employees in particular are required to:

- Be fully aware, understand, and adhere to the Company's internal rules, procedures and guidelines at any time.
- Comply with and adhere to applicable laws.
- Avoid any situation where a conflict of interests may arise, and in case of doubt or facing any obstacle, the employee's department and the Company's Compliance Officer were immediately notified of this conflict of interest.
- Fully commit to maintain professional secrets.
- Refrain from acting beyond the powers granted to them and respect the rules regarding approved signatures.

- Continue to bear the full responsibility they authorize to others and exercise adequate supervision and control.
- Respect for the dignity and privacy of their colleagues.

### **Policies and mechanisms of minimizing the conflict of interests**

The Board of Directors approved the policies and mechanisms of minimizing the conflict of interests as well as the methods of treatment and handling of such cases within the corporate governance framework subject to the provisions of the Companies Act, and there are no amendments to the policy.

Whereas the policy of minimizing the conflict of interests approved by the Board of Directors aims at ensuring the implementation of appropriate actions to help divulge the substantial cases relevant to conflict of interests and how to effectively address the same. The said policy also aims at ensuring that the Board of Directors deals with the existing, potential and expected cases of conflict of interests and that all decisions are taken with the goal to protect the Company's interests.

The commitment of all employees to the criteria of professional and ethical behavior is constantly under the supervision of the Company's human resources management and through internal audit work that is carried out at all departments of the Company.

The Company maintains a register of reporting any violations or abuses of policies or professional and ethical behavior. The register shows no communications recorded during 2019.

### **Seventh Rule: Accurate and Timely Disclosure and Transparency**

#### **Disclosure and Transparency**

The Company has a manual to policies and work procedures that include policies and mechanisms for disclosure and transparency. The Policy explains the Company Compliance Department responsibility for the management of disclosure operations and verification of the compliance with the timely and accurate disclosure of statements according to the CMA instructions as well as the applicable laws and regulations. Moreover, the Policy emphasizes the publishing of information on the Company website.

The Company Board of Directors approved the Manual of insiders trading to enhance the disclosure and transparency principle in all its transactions. The Manual indicates the insiders of the Company, the information that should be disclosed, the disclosure times, the trading prohibition periods and the procedures of the insiders' trading in securities.

## **Disclosure Register**

The Company keeps a register for the disclosures made by the members of the Board and the executive management. Such register contains disclosures about the ownership percentages, the trading in the Company shares as well as the acknowledgments and undertakings submitted by the members of the Board and the executive management in their capacity as insiders. Such register is kept at the Company headquarters and is accessible by all the shareholders without charge. It is periodically updated to reflect the related parties' situations.

## **Investors' Affairs Unit**

The Company has an independent unit in charge of providing and making available the necessary information, data and reports about the current and potential investors of the Company. The duties of such Unit are assigned to Mr. Saud Alfowzan. All the information, reports and news are published in the Company website. He communicates with the investors and shareholders through the following numbers or e-mail addresses:

**sfowzan@injazzat.com**  
**22275254**

## **Reliance on the information technology infrastructure in the disclosure operation**

The Company has developed a basic information technology infrastructure and has relied on such infrastructure largely in its disclosure operations. In addition, a corporate governance's division was established to present all the information and data. Such data helps current and potential investors and shareholders practicing their rights and assessing the Company performance.

### **Eighth Rule: Respect of Shareholders' Rights**

All types of shareholders enjoy equal rights that do not harm the interests of the Company or are inconsistent with the relevant laws and regulations. Among these rights are the following:

- To review and participate in the amendment of the article of association and memorandum of association.
- To participate in general assemblies and make observations, recommendations and reservations on the performance of the Company.
- To delegate other persons to attend the general assembly meetings, according to a special power of attorney.
- To vote in the elections for members of the Board of Directors and stand for elections as a member of the Board of Directors of the Company in accordance with the rules and mechanisms regulating this .
- To obtain the necessary information and reports that help in making the investment decision.
- To obtain the profits to be distributed .
- Freedom to dispose of shares including buying / selling / transferring / remitting.

The Board of Directors of the Company and executive management seeks to work on dealing with the data stated in the mentioned registers according to the utmost protection and confidentiality. Such procedure not to conflict with the law of the Capital Markets Authority, its executive regulation, instructions, and regulatory controls issued by it

The Company has a register maintained by the Kuwait Clearing Company, in which the names, nationalities, domiciles of the shareholders and the number of shares owned by them are recorded.

The Board of Directors of the Company and its executive management also seeks to provide shareholders with effective participation in the general assembly meetings; to discuss issues stated on the agenda and inquiries related to it; to direct questions regarding them to members of the Board of Directors and the external auditor. The Board of Directors or external auditor shall answer the questions to the extent that the Company's interests are not harmed.

The Company has established policies that regulate the relationship and rights of shareholders and stakeholders. The Company places these policies in the hands of shareholders for viewing at any time.

### **Ninth Rule: Perception of the Stakeholders' Role**

The Company tries to respect and protect the stakeholders' rights in all its internal and external transactions and deals. The stakeholders' contributions constitute an important resource for building the Company competitive capacity and support the levels of its profitability. To protect the stakeholders' transactions with the Company, whether contracts or deals, the Company has approved internal policies and regulations including without limitation

- Stakeholders' rights protection policy
- Conflict of interests' minimization policy
- Whistle-blowing policy
- Policy of transactions with related parties
- Purchase and contracting policy and procedures

The Company provides information about its activities and publishes it on website to give the stakeholders access to the necessary information about the Company. Furthermore, the Company gives the stakeholders access to financial statements and information related to their activities and transactions with the Company through its Finance Department.

The Company Board of Directors has approved the whistle-blowing policy by virtue of which the Company complies with the integrity and professional and ethical behavior in all the transactions and offers the opportunity to the stakeholders to report any violation or any illegal, unethical or illegitimate activities. Meanwhile, the Company complies with the confidentiality in the procedures of investigation in the violation while providing protection to the whistleblowers so that they are not subject to retaliation.

### **Tenth Rule: Performance Enhancement and Improvement**

#### **Training of the Board and executive management members**

A consulting company held a training course during the year for the Board and executive management members on the amendments to laws and legislation during 2019.

#### **Assessment of the performance of the Board of directors and the executive management**

The Company has set systems and mechanisms for the assessment of the performance of the Board of directors and the executive management through a number of objective key performance indicators related to the achievement of the Company strategic objectives.

#### **The corporate values**

The Company has policies and procedures contributing to the achievement of the strategic objectives and enhancement of the corporate values of the workers for the protection of the Company financial soundness.

In addition, the Company issues integrated reports assisting the Board and executive management members to take the decisions contributing to the achievement of the shareholders' interests.

### **Eleventh Rule: Focusing on the Importance of Social Responsibility**

The Board of Directors approved the corporate social responsibility policy aiming at striking balance between the Company objectives and the community objectives. Such policy guarantees that the Company manages its corporate social responsibility to achieve the sustainable development of the community and the workers through the contribution to the job creation, minimization of the unemployment levels in the community and optimum utilization of the available sources

Moreover, Injazzat embarked on a number of initiatives in the field of corporate social responsibility. It works on such initiatives through the use of material and accessories protecting the environment, public health, the use of power saving internal tools and the Company keenness in all its projects to set the systems for removal of wastes in a safe way, which protects the environment and the community public health. During 2019, the Injazzat participated in number of social initiatives, as follows:

1. Injazzat provided financial support to the National Union of Kuwaiti Students (NUKS), the United States of America branch, in the interest of the Company to support the learning and education process in the State of Kuwait and to enhance the principles of union work among the students.
2. Injazzat provided financial support to LOYAC organization in order to encourage the members of the community to volunteer, humanitarian work and integration among the members of the same society.
3. Injazzat provided financial support to the Kuwaiti Red Crescent Society as part of social responsibility towards poor and afflicted societies.



**Mohamed Abdul Hameed Al Marzook**  
**Vice Chairman**







## THE COMPANY PROJECTS

2019

## Introduction

Since its establishment in 1988, Injazzat Real Estate Development Company was keen on developing strategic assets and investing in prime investments with the aim of maximizing the profitability of shareholders and investors both equally.

In order to achieve strategic plans, the company sought to search and to develop the best investment opportunities available in the markets in order to meet the expectations of the company, investors, and shareholders.

Injazzat focused on the development of real estate projects and strengthening their operations with the aim of creating a variety of periodic returns to ensure the continuity of profit rates beyond those in the region.

This was achieved in addition to the successful completion of several development projects and the operation of various assets to enhance the company's revenue.

Balanced management has contributed to the positioning of a number of promising markets in the region, particularly those that are expected to grow rapidly in the coming period, in addition to focusing on working in innovative real estate sectors that contribute to creating added value upon the company's investments.

## Local Level

Injazzat contributes actively in the local real estate sectors of the domestic market in the state of Kuwait in accordance with the laws and regulations and the company's bylaws, including but not limited to the following:

- Sale and Purchase Operations.
- Development and Operating Procedures.
- Trading Operations.
- Project Management Operations.

## Al Dajeej Building

Al Dajeej Building is located in Al Dajeej area Al Farwaniya governate and was acquired by the Company to become one of the Company's income generating assets. It reinforces the Company's strategy for local expansion, specifically in properties with regular returns. The building has been leased through government contracts.

## Prime Tower

Injazzat has acquired an old building located in Sharq, Ahmed Al Jaber street with a land size of 300 sqm and built up area of 920%. The company has demolished the building and began constructing an office tower consisting of 2 basements, ground floor, mezzanine, and 22 floors making up 6,227 sqm. The units will be sold as individual office floors during the construction of the building.



## **GCC Countries**

The company has long been investing in the markets of the Arabian Gulf regions due to the growth in the economic and legislative factors, therefore serving investors through investing directly in the purchase, development and operation of real estate, or through creating strategic partnerships with Gulf investors that will open up new investment prospects in the region.

### **Kingdom of Bahrain**

#### **Dhow Real Estate Company**

Dhow Real Estate Company was established in 1999 as a Bahraini company fully owned by Injazzat, to invest, develop and trade in Bahrain's real estate sector. It has realized fine gains from a number of sales and acquisition deals. The Company enhanced the list of its income-generating assets through developing warehouses at the Bahrain Investment Wharf Project. In addition, the Company still owns several strategically located plots in the areas of Al Seef, and Ras Zuwaid.

#### **Al Yal Real Estate Company**

Al Yal Real Estate was established in equal partnership with Al Dow Real Estate Company in the Kingdom of Bahrain, to merge and develop three pieces of land owned by the two companies at Al Seef area. The company is developing its largest project (Catamaran Towers) which consists of two residential buildings comprising 583 apartments with a commercial complex in the middle. The project also includes 3 floors that hold up to 600 parking spaces. They contain restaurants and commercial shops. One of the two towers is being sold as units, and the other will be kept for rent al purposes. The first tower that is being sold as units has been completed in the second quarter of 2019 and the second tower is expected to be complete by the second quarter of 2020.

#### **First Real Estate Company**

Injazzat Real Estate Development Company established "First Real Estate Company" in the Kingdom of Bahrain in 2002, shared equally with a qualified Bahraini investor who is an expert in both the construction and real estate fields, to build and develop residential complexes.

In 2005, the Company underwent restructuring and its capital was increased to BD 30 million through adding some new assets and allowing the entry of new investors. The Company maintains the quality and performance of its current income-generating assets that enjoy high occupancy rates. In parallel, it works to continuously invest in new promising future projects through the development of its lands and assets situated in strategic locations.

### **UNITED ARAB EMIRATES**

#### **Al Qouz Labor Camp building 604 - 606**

The company owns 50% of Al Qouz residential building through its subsidiary known as Al Bateel along with another investor. The project is located in Dubai, covering a land area of 100,136 sq.ft. and a total built-up area of approximately 227,000 sq.ft. The project avails 656 rooms in addition to 24 offices and 8 retail shops.

#### **Al Qouz Labor Camp building (596)**

Al Qouz labor camp 596 covers a land area of approximately 50,051 sq.ft. and a total built-up area of approximately 113,700 sq.ft. It comprises 328 rooms, in addition to 12 offices and 4 commercial shops.

#### **Al Muhaisna Labor Camp building**

The building is located in Al Muhaisna region, Dubai, and covers a total land area of about approximately 56,914 sqft. It comprises two floors and 399 rooms and 2 commercial units. The company purchased this project in equal partnership with First Real Estate Company-Kingdom of Bahrain.

## Al Sanbook Real Estate Company buildings

In association with strategic local investors, the Company acquired Al Sanbook Real Estate Company which owned 2 plots of lands in Jabal Ali – Dubai, covering a total area of 41,980 sq.ft. The plots were developed into labor accommodation buildings with a total built-up area of 159,000 sqft providing a total room of 380. The buildings were completed in 2016 and are fully leased.

## Dunes Village, Dubai Investment Park

Injazzat through its subsidiary (Al Bateel Real Estate Company) acquired two residential buildings at Dubai Investment Park each building consists of 52 residential apartments each and covers an area of 108,298 sq.ft. Both buildings are fully leased.

Jabal Ali 9223 & 9224 labor camp project

The company acquired 2 plots of land with a total area of 50,000 sqft and with a built up area of 201,190 sqft. The project accommodates 345 rooms located in Jabal Ali – Dubai and was completed in 2019 and is fully leased.

## Jabal Ali Commercial Project

The company acquired a land in Jabal Ali through its subsidiary (Al Bateel Real Estate Company) with an area of 24,372 square feet. The objective is to build a commercial complex to serve the residents in the area. The project is expected to be completed in the second quarter of 2020. The entire building has been pre-leased to a single tenant.

## Injazzat Residence – Al Maydan

The company purchased a 30,000 sq.ft. plot in Al Maydan, United Arab Emirates with the aim of developing a residential building with a total built-up area of 107,000 sq.ft. and the project consist of 53 apartments and 3 retail shops it's expected to be complete by the third quarter of 2020.



## International Level

In order to achieve the highest levels of balance in investments, diversity of sources of income, distribution of risk and geographical concentration, Injazzat has headed to investing in global markets characterized by stability and balance as to mitigate risks including European and U.S. markets. This contributed to the diversity of the company's real estate portfolio where it cooperated with several asset managers experienced in managing and operating the company's assets in international markets.



## **FRANCE**

### **Alpha Investment Fund**

The Company established and submitted a real estate fund, in compliance with the Islamic Shari'ah principles, known as the Alpha Investment Fund. Its investment strategy targets profitable office buildings and warehouses across the North and South eastern French cities between Paris in the north and Marseilles in the south. The Fund manager has started liquidating the holding Spv's and is expected to exit from the fund in 2020.

## **GERMANY**

### **Hitachi Power Building Project:**

The Company invested 50% of shares into an office building in Duisburg City, Germany, located in the Düsseldorf Governorate. Duisburg is one of the major world centers well-known for steel production and trade. It is famous for its river port, Duisport, the largest and most important river port in Europe. The building consists of 8 floors and two basement floors dedicated for car parking. The total area of the building is 218,000sq.ft. The building is leased to Hitachi Power Systems Company under a long-term lease and generates high periodic returns.

## **UNITED STATES OF AMERICA**

### **399 Jefferson, Parsippany**

Injazzat owns a significant share of an office building located in Parsippany, New Jersey, USA, covering a total area of 206,155 sq.ft. The building is leased with long term contract to a reputable medical company.

### **Denton Harvest Hill**

The Company acquired a plot of raw land in Texas in 2016 with the intention of building infrastructure and splitting the land to about 150 plots and then resell the plots as residential lands prior to development.

### **Valpak building**

The company owns a majority share in the Valpak building as an industrial factory & commercial offices in the city of St. Petersburg suburb of the city of Tampa, located in Florida, USA. The building has an area of 465,000 square feet and is fully leased with a long-term lease creating stable cash flows for the company.





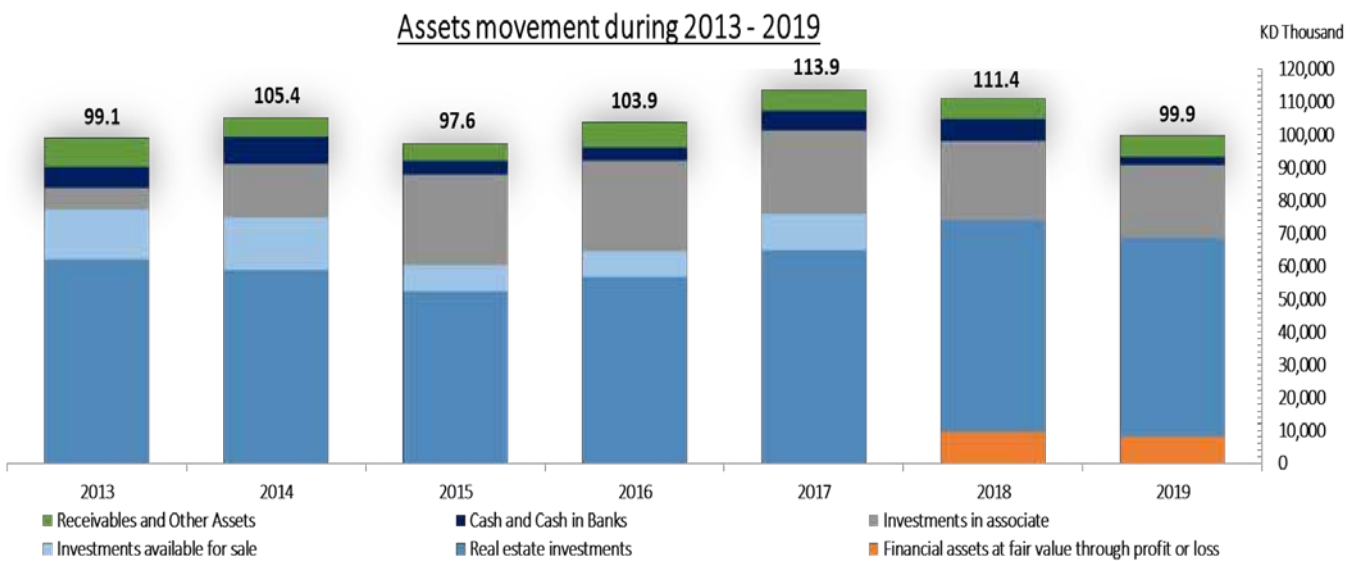




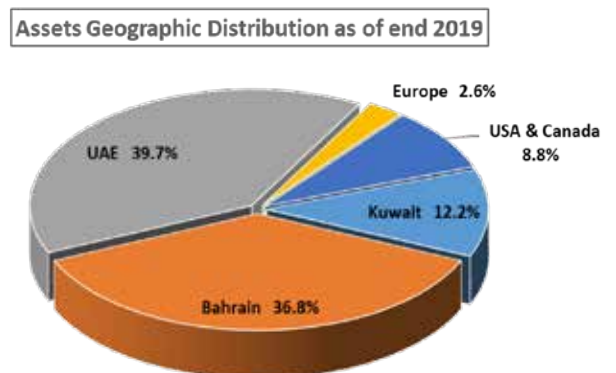
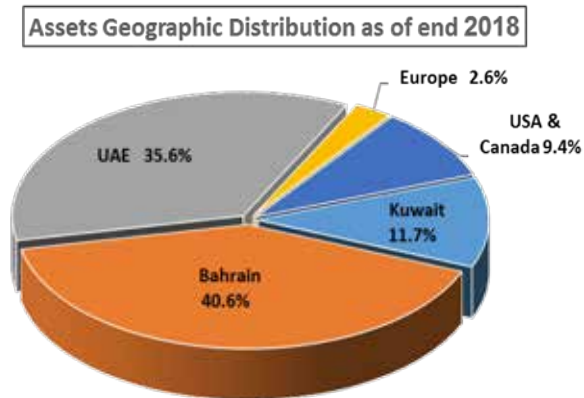
# FINANCIAL ANALYSIS FOR 2019

# FINANCIAL POSITION:

By the end of 2019, Injazzat Real Estate Development Company K.S.C total assets scored KD 99.9 million, declining by KD 11.5 million or by 10.3% from its level in 2018 when it scored KD 111.4 million. This decline was due to taking unusual provision amounting KD 8.7 million against a decrease in value of some real-estate properties, and using the available cash to pay some debt and liabilities. Most of the main balance sheet items witnessed a decline at varying rates. Item of Investment properties, which has the biggest weight of total assets, reached KD 60.3 million (60.4% of total assets), decreasing from about KD 64.5 million (57.9% of total assets) in 2018 due to the change in its fair value compared to its book value in 2018. Item of Investment in associates also decreased reaching KD 22.4 million (22.4% of total assets), compared with KD 24.2 million (21.8% of total assets) in 2018. Quoted financial assets at fair value through profit or loss also decreased to reach KD 8.4 million (8.4% of total assets) compared with an amount of KD 9.7 million (8.7% of total assets) in 2018.



Geographically, the company assets were distributed as follows: 12.2% in the local market, 76.5% in the regional market (GCC), and 11.4% in the American & European markets, compared with 11.7%, 76.2% and 12.1% respectively in 2018.



Company liabilities decreased by KD 2.05 million or by 4.1% and scored KD 47.6 million, compared with KD 49.7 million at the end of 2018. Loans and borrowings decreased by KD 200 thousand or by 0.5% as it reached KD 39.8 million (forming about 39.8% of total liabilities and equity) compared with KD 40 million at the end of 2018. These loans are secured by investment properties and Group's investment in associate companies. Item of accounts payable and other liabilities decreased by KD 1.8 million or by 19%. Total assets to total liabilities ratio scored 47.7% in 2019 compared with 44.6% in 2018. Total liabilities to total shareholder's equity ratio increased to 91.2% against 80.7% in 2018.

Total equity attributable to owners of the Parent Company reached about KD 52.3 million, compared to about KD 61.6 million in 2018, indicating a decrease by KD 9.3 million, or 15.1%, due to the change in retained earnings to accumulated losses. Therefore, Company's book value per share scored 156 fils in 2019 compared to 183 fils in 2018.

## FINANCIAL PERFORMANCE

The company recorded net losses of KD 6.9 million at the end of 2019 compared to 2018 end of year profits of KD 4.1 million. During the year, the Company revenues decreased due to a major and unusual provisions against the KD 8.7 million decrease in fair value of investment properties at the end of 2019. Item of rental income also decreased by KD 752.6 thousand reaching KD 3.2 million compared with KD 3.9 million at the end of 2018, as a result of decreasing occupancy rates in real-estate especially in Dubai. The company also recorded losses from its share of results of associates by about KD 393 thousand compared to profits of KD 2.8 million in 2018. This resulted from declining performance of one of the associates in Bahrain as it recorded an unusual provision against the decrease in fair value of its investment properties as to follow the Parent Company's conservative policies.

On the other hand, total expenses were stable at KD 4.8 million with varying upward/downward changes in subsequent items. Administrative and general expenses (including staff costs) decreased by KD 149.9 thousand to reach KD 1.1 million, compared to KD 1.2 million in 2018. Real estate operating costs increased by KD 130.9 thousand to reach KD 1.2 million compared to KD 1.1 thousand in 2018. Finance costs decreased to about KD 2.2 million, a decrease by KD 139.3 thousand, compared to KD 2.3 million.

The basic and diluted losses per share of the Parent Company's shareholders were 20.52 fils, compared to earnings of 11.92 fils per share in 2018. As the Company achieved operating income during the year, the board of directors suggested cash dividend of 5% for year ended December 2019.

The company's financial ratios decreased; Return of Assets (ROA) decreased to -6.9% compared to 3.7% in 2018, and Return on Equity (ROE) decreased to -13.2% compared to 6.5% in 2018. The following table shows that Company's ratios compared to average performance of a sample of real estate companies listed on Kuwait Stock Exchange (Boursa Kuwait).

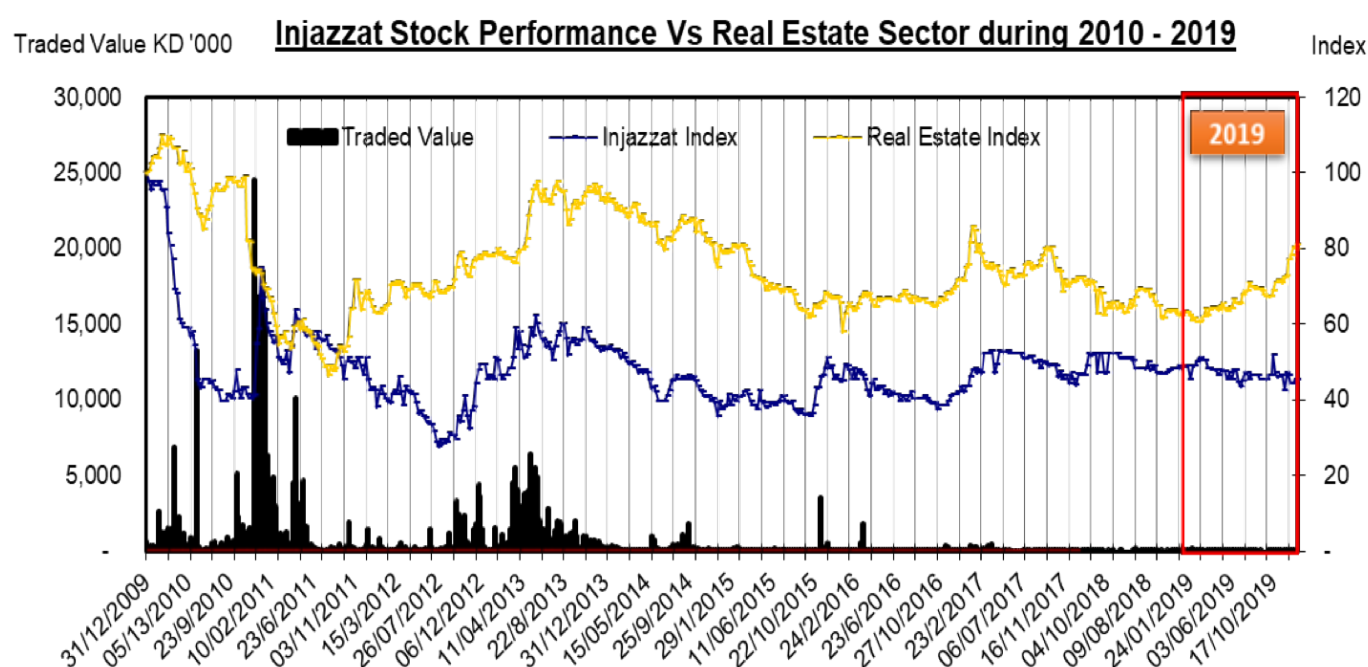
*Ratios	Injazzat Real Estate	Real Estate Sector
Price/Earnings per share (P/E)	N/A	14.7
Price/Book Value (P/B)	0.5	0.7
Return On Equity (ROE) %	-13.2%	3.8%
Return On Assets (ROA) %	-6.9%	1.9%

\*Average of 40 real estate listed companies with available financial statements calculated on annual basis.

## THIRD: SHARE PERFORMANCE ANALYSIS – 2019

Boursa Kuwait performance in 2019 was more active than in 2018, key indicators increased including traded value, traded volume, and number of transactions. The market index rose according to Alshall Index by 29% compared to end of 2018. However, the Company's index declined by 7%, compared to an increase in real estate sector index by 29.7% during the same period. As of end of 2019, the company's share price closed at 80 fils, compared to its closing price of 86 fils at the end of 2018. The market price per share reached its highest level in 2019 at 91 fils, whereas the share price was at its lowest at 75 fils.

The following graph displays movements in the company's share price during the last 10 years (2010-2019). The Company's share performance and the real estate sector's performance indicate a drop by 54.5% and 19.1%, respectively during the period.



Company's traded shares value during 2019 scored KD 1 million with an average daily trading value of KD 4 thousand, increasing by 130.4% compared with 2018 when it scored KD 1.7 thousand per day. Value of traded shares represented 0.2% of total real estate sector's trading value during 2019. While volume of traded shares scored about 12.4 million shares, an average daily trading of 49.6 thousand shares, an increase by 140% compared to 20.6 thousand shares in 2018.

The share turnover ratio was 3.6% compared with 1.4% in 2018, and it is considered less than the real estate sector's share turnover during 2019 which was 18.5%. Total market capitalization of the company decreased to KD 27.7 million, representing 1.3% of the total market capitalization of the real estate sector, it is also lower by KD 2.1 million than the achieved market capitalization at the end of 2018 which resulted at KD 29.7 million.

Year 2019	Traded Value (KD million)	Number of Transactions '000	Traded Volume (Million Shares)	Total Market Capitalization (KD Million)
Injazzat R.E. Co.	1.0	0.4	12.4	27.7
Real Estate Sector	409.2	209.7	7,156.3	2,210.5
Total Market	7,937.8	1,543.1	39,046.6	36,355.1
<b>% of Real Estate Sector</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>1.3%</b>
<b>% of Total Market</b>	<b>0.01%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.1%</b>



**Consolidated financial statements and independent auditors' report**  
**INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.**  
**AND SUBSIDIARIES**  
**31<sup>st</sup> December 2019**





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

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

#### *Opinion*

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

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

#### *Basis for Opinion*

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

#### *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.

#### *Valuation of investment properties*

Investment properties represent 60% of the Group's total assets and are measured at fair value. Management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis. The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions.

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

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

*Key Audit Matters (continued)*

*Valuation of investment properties (continued)*

Given the size of investment properties and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We assessed the competence, independence and integrity of the external valuers.
- ▶ We assessed whether the valuation techniques applied by the external valuers are appropriate for the purpose of the valuation of the underlying investment property.
- ▶ We assessed the reasonableness of the key estimates and assumptions used by the external valuers.
- ▶ We performed audit procedures on a sample of the investment properties, to test the appropriateness of data provided to the external valuers.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning investment properties in Notes 8 and 20.2 to the consolidated financial statements.

*Valuation of financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss represent 8% of the Group's total assets which are measured at fair value as disclosed in Note 7 to the consolidated financial statements.

Fair values of financial assets at fair value through profit or loss are measured using valuation techniques that include unobservable inputs, hence requiring management to make significant judgements and estimates in determining the fair value. For these reasons, this is considered as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ For valuations which used significant unobservable inputs, we assessed the reasonableness of the assumptions and inputs used in the valuations, to the extent possible to independent sources, and externally available market data to evaluate its relevance, completeness and accuracy.
- ▶ We assessed the adequacy and the appropriateness of the Group's disclosures concerning the fair value measurement of financial assets at fair value through profit or loss and the sensitivity to changes in unobservable inputs in Notes 7 and 20.1 to the consolidated financial statements.

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

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

#### *Other information included in the Group's 2019 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)*

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

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

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.



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

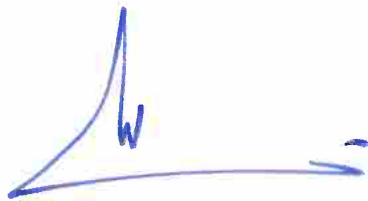
### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)*

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016 and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 as amended, and its executive regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business or financial position of the Parent Company.



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



.....  
**ANWAR Y. AL-QATAMI, F.C.C.A.**  
LICENCE NO. 50-A  
GRANT THORNTON  
AL-QATAMI, AL-AIBAN & PARTNERS

3 March 2020  
Kuwait



INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<b>Income</b>			
Rental income		<b>3,160,153</b>	3,912,780
Valuation loss from investment properties	8	<b>(8,655,684)</b>	(417,480)
Gain on sale of investment properties	8	-	523,978
Change in fair value of financial assets at fair value through profit or loss	7	<b>862,441</b>	93,077
Gain on disposal of financial assets at fair value through profit or loss	7	<b>1,398,615</b>	-
Distribution income from financial assets at fair value through profit or loss	7	<b>632,894</b>	1,347,691
Management fees		<b>668,403</b>	550,317
Other income	3	<b>337,021</b>	361,050
Share of results of associates	9	<b>(393,467)</b>	2,750,838
Net foreign exchange differences		<b>(86,625)</b>	39,003
<b>Total income</b>		<b>(2,076,249)</b>	9,161,254
<b>Expenses</b>			
Real estate operating costs		<b>(1,201,516)</b>	(1,070,652)
Staff costs		<b>(730,613)</b>	(861,691)
Depreciation		<b>(155,432)</b>	(17,211)
Administrative expenses		<b>(320,026)</b>	(338,840)
Consultancy and professional fees		<b>(206,810)</b>	(156,956)
Finance costs		<b>(2,202,724)</b>	(2,341,999)
<b>Total expenses</b>		<b>(4,817,121)</b>	(4,787,349)
<b>(Loss) profit before tax and directors' remuneration</b>		<b>(6,893,370)</b>	4,373,905
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		-	(38,810)
National Labour Support Tax (NLST)		-	(109,814)
Zakat		-	(43,926)
Directors' remuneration	16	-	(105,000)
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(6,893,370)</b>	4,076,355
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>(6,893,370)</b>	4,014,596
Non-controlling interests		-	61,759
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(6,893,370)</b>	4,076,355
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>			
	4	<b>(20.52) Fils</b>	11.92 Fils

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<b>(LOSS) PROFIT FOR THE YEAR</b>	<b>(6,893,370)</b>	4,076,355
<b>Other comprehensive income (loss):</b>		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Share of other comprehensive loss of associates	-	(712,709)
Net exchange differences on translation of foreign operations	<b>23,046</b>	27,595
<b>Other comprehensive income (loss) for the year</b>	<b>23,046</b>	(685,114)
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR</b>	<b>(6,870,324)</b>	3,391,241
<b>Attributable to:</b>		
Equity holders of the Parent Company	<b>(6,870,324)</b>	3,329,482
Non-controlling interests	-	61,759
	<b>(6,870,324)</b>	3,391,241

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

**INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES**

**Consolidated Financial Statements  
for the year ended 31 December 2019**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<i>Notes</i>	<b>2019 KD</b>	<b>2018 KD</b>
<b>ASSETS</b>			
Cash and cash equivalents	5	<b>2,369,410</b>	6,571,267
Accounts receivable and other assets	6	<b>5,806,429</b>	6,261,915
Financial assets at fair value through profit or loss	7	<b>8,429,204</b>	9,721,768
Investment properties	8	<b>60,323,903</b>	64,487,981
Investment in associates	9	<b>22,362,471</b>	24,230,450
Property and equipment		<b>618,189</b>	91,408
<b>TOTAL ASSETS</b>		<b>99,909,606</b>	111,364,789
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	10	<b>34,564,860</b>	34,564,860
Share premium	10	<b>2,869,130</b>	2,869,130
Statutory reserve	11	<b>8,842,498</b>	8,842,498
Voluntary reserve	12	<b>4,421,250</b>	4,421,250
Treasury shares	13	<b>(1,017,932)</b>	(922,378)
Treasury shares reserve		<b>4,396,905</b>	4,396,905
Foreign currency translation reserve		<b>1,478,947</b>	1,455,901
Fair value reserve		<b>(712,709)</b>	(712,709)
(Accumulated losses) retained earnings		<b>(2,579,385)</b>	6,670,223
<b>Equity attributable to equity holders of the Parent Company</b>		<b>52,263,564</b>	61,585,680
Non-controlling interests		-	85,248
<b>Total equity</b>		<b>52,263,564</b>	61,670,928
<b>Liabilities</b>			
Accounts payable and other liabilities	14	<b>7,878,883</b>	9,726,702
Loans and borrowings	15	<b>39,767,159</b>	39,967,159
<b>Total liabilities</b>		<b>47,646,042</b>	49,693,861
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>99,909,606</b>	111,364,789



Mohamed Al Marzook



Mohammad Ibrahim Al-Farhan

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

Consolidated Financial Statements  
for the year ended 31 December 2019

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Retained earnings (accumulated losses) KD	Sub-total KD	Non-controlling interests KD	Total KD
As at 1 January 2019	34,564,860	2,869,130	8,842,498	4,421,250	(922,378)	4,396,905	1,455,901	(712,709)	6,670,223	61,585,680	85,248	61,670,928
Loss for the year	-	-	-	-	-	-	-	-	(6,893,370)	(6,893,370)	-	(6,893,370)
Other comprehensive income for the year	-	-	-	-	-	-	23,046	-	-	23,046	-	23,046
Total comprehensive income (loss) for the year	-	-	-	-	-	-	23,046	-	(6,893,370)	(6,870,324)	-	(6,870,324)
Liquidation of subsidiaries (Note 1.2)	-	-	-	-	-	-	-	-	-	-	(85,248)	(85,248)
Purchase of treasury shares	-	-	-	-	(95,554)	-	-	-	-	(95,554)	-	(95,554)
Cash dividends (Note 10)	-	-	-	-	-	-	-	-	(2,356,238)	(2,356,238)	-	(2,356,238)
<b>At 31 December 2019</b>	<b>34,564,860</b>	<b>2,869,130</b>	<b>8,842,498</b>	<b>4,421,250</b>	<b>(1,017,932)</b>	<b>4,396,905</b>	<b>1,478,947</b>	<b>(712,709)</b>	<b>(2,579,385)</b>	<b>52,263,564</b>	<b>-</b>	<b>52,263,564</b>

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

## INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

### Consolidated Financial Statements

for the year ended 31 December 2019

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
As at 1 January 2018 as previously reported	34,564,860	2,869,130	8,411,283	4,205,643	(865,740)	4,396,905	1,428,306	100,614	4,890,904	60,001,905	2,772,053	62,773,958
Impact on adoption of IFRS 9	-	-	-	-	-	-	-	(100,614)	100,614	-	-	-
As at 1 January 2018 (restated)	34,564,860	2,869,130	8,411,283	4,205,643	(865,740)	4,396,905	1,428,306	-	4,991,518	60,001,905	2,772,053	62,773,958
Profit for the year	-	-	-	-	-	-	-	-	4,014,596	4,014,596	61,759	4,076,355
Other comprehensive income (loss) for the year	-	-	-	-	-	-	27,595	(712,709)	-	(685,114)	-	(685,114)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	27,595	(712,709)	4,014,596	3,329,482	61,759	3,391,241
Purchase of treasury shares	-	-	-	-	(56,638)	-	-	-	-	(56,638)	-	(56,638)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	330,564	330,564	(2,748,564)	(2,418,000)
Cash dividends (Note 10)	-	-	-	-	-	-	-	-	(2,019,633)	(2,019,633)	-	(2,019,633)
Transferred to reserves	-	-	431,215	215,607	-	-	-	-	(646,822)	-	-	-
At 31 December 2018	34,564,860	2,869,130	8,842,498	4,421,250	(922,378)	4,396,905	1,455,901	(712,709)	6,670,223	61,585,680	85,248	61,670,928

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

## Consolidated Financial Statements for the year ended 31 December 2019

### CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019 KD	2018 KD
<b>OPERATING ACTIVITIES</b>			
<b>(Loss) profit before tax and directors' remuneration</b>		<b>(6,893,370)</b>	4,373,905
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Valuation loss from investment properties	8	8,655,684	417,480
Gain on sale of investment properties	8	-	(523,978)
Change in fair value of financial assets at fair value through profit or loss	7	(862,441)	(93,077)
Distribution income from financial assets at fair value through profit or loss	7	(632,894)	(1,347,691)
Gain on disposal of financial assets at fair value through profit or loss	7	(1,398,615)	-
Share of results of associates	9	393,467	(2,750,838)
Depreciation expense on property and equipment		28,409	17,211
Depreciation expense on right-of-use assets		127,023	-
Interest income		(253,825)	(302,823)
Interest expense on lease liabilities		29,971	-
Finance costs		2,172,076	2,341,999
		<b>1,365,485</b>	2,132,188
<i>Working capital adjustments:</i>			
Accounts receivable and other assets		455,486	98,619
Accounts payable and other liabilities		(2,587,441)	1,045,548
<b>Net cash (used in) from operating activities</b>		<b>(766,470)</b>	3,276,355
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(112,572)	(77,801)
Proceeds from capital redemption of financial assets at fair value through profit or loss		-	1,262,685
Proceeds from disposal of financial assets at fair value through profit or loss		3,589,861	-
Distribution income received from financial assets at fair value through profit or loss	7	632,894	1,347,691
Purchase of investment properties	8	-	(4,783,503)
Capital expenditure incurred on investment properties	8	(4,519,940)	(6,799,630)
Proceeds from sale of investment properties	8	-	12,460,523
Additions to interest in associates	9	(243,666)	(1,528,421)
Proceeds from capital redemption of investment in associates	9	318,070	4,533,264
Consideration paid to acquire non-controlling interests in a subsidiary		-	(2,418,000)
Dividends received from an associate	9	374,614	371,031
Interest income received		253,825	161,702
Advances received on sale of investment property		-	2,482,170
Movement in restricted deposits		(5,676)	-
<b>Net cash from investing activities</b>		<b>287,410</b>	7,011,711
<b>FINANCING ACTIVITIES</b>			
Dividends paid to equity holders of the Parent Company	10	(2,311,824)	(2,005,604)
Proceeds from loans and borrowings	15	3,800,000	3,500,000
Repayment of loans and borrowings	15	(4,000,000)	(8,900,000)
Purchase of treasury shares		(95,554)	(56,638)
Finance costs paid		(1,147,741)	(2,287,262)
Payment of lease liabilities		(116,446)	-
<b>Net cash used in financing activities</b>		<b>(3,871,565)</b>	(9,749,504)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,350,625)</b>	538,562
Foreign currency translation adjustments		143,174	(1,839)
Cash and cash equivalents at beginning of the year	5	6,147,275	5,610,552
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<b>1,939,824</b>	6,147,275
<b>Non-cash items excluded from the statement of cash flows:</b>			
Transitional adjustment to lease liabilities on adoption of IFRS 16		569,641	-
Transitional adjustment to right-of-use of assets on adoption of IFRS 16		(569,641)	-
Transitional adjustment to fair value reserve on adoption of IFRS 9		-	(100,614)
Transitional adjustment to retained earnings on adoption of IFRS 9		-	100,614
Accounts payable and other liabilities		(900,000)	-
Proceeds from capital redemption of investment in associates		900,000	-

The attached notes set out on pages 53 to 91 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1 CORPORATE AND GROUP INFORMATION**

**1.1 CORPORATE INFORMATION**

The consolidated financial statements of Injazzat Real Estate Development Company K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Parent Company’s Board of Directors on ---- 2020. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a Kuwaiti shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded in Kuwait Stock Exchange (“Boursa Kuwait”). The Parent Company’s registered postal address is P.O. Box 970, Safat 13010, State of Kuwait.

The Group is principally engaged in real estate activities. The primary objectives of the Parent Company is as follows:

- ▶ Ownership, purchasing, sale and development of all kinds of investment properties with exception to residential properties inside and outside the state of Kuwait for the benefit of the Parent Company and on the behalf of others.
- ▶ Ownership and sale of financial assets, bonds relating to real estate companies for the benefit of the Parent Company alone inside and outside the State of Kuwait.
- ▶ Preparation and delivery of studies relating to real estate activities.
- ▶ Maintenance activities relating to the properties owned by the Parent Company including civil, mechanical, electrical works and all required works to sustain the state of the properties.
- ▶ Organisation of real estate conventions relating to the Parent Company’s projects in accordance with the regulations set out by the Ministry of Commerce.
- ▶ Hosting auctions.
- ▶ Ownership of malls and residential complexes and managing them.
- ▶ Ownership of hotels, health clubs, tourism related facilities and leasing and releasing them.
- ▶ Management, operating and leasing all types of investment properties.
- ▶ Establishment and management of real estate investment funds.
- ▶ It is permitted for the Parent Company to invest in managed funds managed by specialised managers.

Information on the Group structure is provided in Note 1.2 below. Information on other related party relationships of the Group is provided in Note 16.

**1.2 GROUP INFORMATION**

**a) Subsidiaries**

The consolidated financial statements of the Group include:

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activities</i>
		<i>2019</i>	<i>2018</i>	
Injazzat Entertainment Enterprises – K.S.C. (Closed)	Kuwait	100%	100%	Entertainment and tourism
Injazzat Real Estate – France <sup>1</sup>	France	-	100%	Real estate
Dhow Real Estate Company - B.S.C. (Closed)	Bahrain	100%	100%	Real estate
Al-Dhow International Real Estate Company – K.S.C. (Closed)	Kuwait	100%	100%	Real estate
Al Mal and Aqar Joint Project Company – W.L.L.	Kuwait	100%	100%	Real estate
Al Quoz International General Trading and Contracting Company – W.L.L. <sup>1</sup>	Kuwait	-	60%	General trading and contracting
Injazzat Lusail Company – W.L.L.	Kuwait	100%	100%	General trading and contracting
Amwaj Real Estate Development Company – K.S.C. (Closed) <sup>1</sup>	Kuwait	-	100%	Real estate
Al Bateel Real Estate Company – L.L.C.	UAE	100%	100%	Real estate
Injazzat S.A.R.L.	Luxemburg	100%	100%	Real estate
Al Barsha Real Estate Company K.S.C (Closed)	Kuwait	100%	100%	Real estate



# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

## Consolidated Financial Statements

As at and for the year ended 31 December 2019

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1 CORPORATE AND GROUP INFORMATION (continued)

#### 1.2 GROUP INFORMATION (continued)

##### a) Subsidiaries (continued)

<sup>1</sup> The subsidiaries have been liquidated during the current year. No gain or loss has been recognized on liquidation of the subsidiaries in the consolidated financial statements.

##### b) Associates

Set out below are the associates of the Group as at 31 December. For more details, refer to Note 9.

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activities</i>
		<i>2019</i>	<i>2018</i>	
Ikarus Real Estate Company K.S.C. (Closed) <sup>1</sup>	Kuwait	-	45%	Real estate
Al Yal Real Estate Company W.L.L.	Bahrain	50%	50%	Real estate
Al Sanbook Real Estate L.L.C.	UAE	25%	25%	Real estate
Al Yal Seef Residence Company W.L.L.	Bahrain	50%	50%	Real estate
Cancorp Duisburg S.A.R.L.	Luxemburg	50%	50%	Real estate
First Real Estate Company – B.S.C. (Closed)	Bahrain	28%	28%	Real estate
Urban Quarter Company W.L.L.	Bahrain	50%	50%	Real estate

<sup>1</sup> During the current year, Ikarus Real Estate Company K.S.C. Closed has been liquidated and has been deregistered from the commercial register. (Note 9)

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

#### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and financial assets at fair value through profit or loss that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is also the functional of the Parent Company.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

##### New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Injazzat Real Estate Development Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**IFRS 16 ‘Leases’**

IFRS 16 supersedes 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*. The standard 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.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 as at 1 January 2019 on the consolidated statement of financial position is as follows:

	<i>KD</i>
<b>Assets</b>	
Right-of-use assets (included within property and equipment)	<u><u>569,641</u></u>
<b>Liabilities</b>	
Lease liabilities (included within accounts payable and other liabilities)	<u><u>569,641</u></u>

**a) Nature of the effect of adoption of IFRS 16**

Prior to the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

▶ *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

▶ *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**IFRS 16 ‘Leases’ (continued)**

**a) Nature of the effect of adoption of IFRS 16 (continued)**

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>KD</i>
Operating lease commitments as at 31 December 2018	638,071
Weighted average incremental borrowing rate as at 1 January 2019	5.6%
	569,641
<b>Discounted operating lease commitments and lease liabilities as at 1 January 2019</b>	<b>569,641</b>

**b) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

▶ *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

▶ *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

▶ *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**IFRS 16 ‘Leases’ (continued)**

**b) Summary of new accounting policies (continued)**

▶ *Lease liabilities (continued)*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

▶ *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value (i.e., below USD 5,000 (KD 1,500)). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

▶ *Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

**c) Amounts recognised in the consolidated statement of financial position and profit or loss**

Set out below are the carrying amounts of the Group’s right-of-use assets and lease liabilities and the movements during the year:

**Amount recognised in the statement of financial position**

Set out below are the carrying amount of the Group’s right-of-use assets and lease liabilities and the movement during the year:

	<i>Right-of-use assets KD</i>	<i>Lease liabilities KD</i>
At 1 January 2019	569,641	569,641
Depreciation expense	(127,023)	-
Accretion of interest	-	29,971
Payments	-	(116,446)
<b>At 31 December 2019</b>	<b>442,618</b>	<b>483,166</b>

As a result of adoption of IFRS 16, the general and administrative expenses are lower by KD 116,446, and depreciation expenses are higher to the extent of KD 127,023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**Amendments to IFRS 3: *Definition of a Business***

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

**Amendments to IAS 1 and IAS 8: *Definition of Material***

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

**2.4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

**2.4.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

#### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.1 Basis of consolidation (continued)

line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

##### 2.4.2 Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but, is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

##### 2.4.3 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and cash on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost using effective interest rate.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**i) Financial assets**

**Initial recognition and initial measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss.

**a) Financial assets at amortised cost (debt instruments)**

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**b) Financial assets at fair value through OCI (debt instruments)**

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets (continued)*

**Subsequent measurement (continued)**

*c) Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

*d) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*ii) Financial liabilities*

**Initial recognition and measurement**

The Group's financial liabilities include tawarruq payables, amounts due to related parties and accounts payable and accruals.

All financial liabilities are recognised initially at fair value and, in the case of tawarruq payables and account payables, net of directly attributable transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Financial instruments – initial recognition and subsequent measurement (continued)**

*ii) Financial liabilities (continued)*

**Subsequent measurement**

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost (including loans and borrowings)

The Group has not designated any financial liability as at fair value through profit or loss as financial liabilities at amortised cost is more relevant to the Group.

***Financial liabilities at amortised cost***

***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

***Accounts payable and accruals***

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

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

***iii) Offsetting of financial instruments***

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

**2.4.5 Impairment of financial assets**

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.5 Impairment of financial assets (continued)**

each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**2.4.6 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**2.4.7 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**2.4.8 Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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

Furniture and fixtures and equipment	3 - 5 years
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The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.8 Property and equipment (continued)**

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in profit or loss as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

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

Depreciation of these assets commences when the assets are ready for their intended use.

**2.4.9 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.10 End of service benefits**

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

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

**2.4.11 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**2.4.12 Treasury shares**

The Group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. 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.

**2.4.13 Earnings per share (EPS)**

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

**2.4.14 Dividend distribution**

The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the companies' law, a distribution is authorised when it is approved by the Shareholders at the annual general assembly ("AGM"). A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.15 Revenue recognition**

*Rental income*

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises.

*Gain or loss arising on disposal of investments*

Gain or loss arising on disposal of investments is calculated as the difference between the net disposal proceeds and the carrying amount of the investments and included in the consolidated statement of profit or loss, in the year in which the investment is disposed. Gain or loss on disposal of investments is recognised when the significant risks and rewards of ownership of the investments have passed to the buyer.

*Fee income*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission and asset management fees.

**2.4.16 Dividend income**

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

**2.4.17 Interest income and expense**

Interest income and expense are recognised in the statement of profit or loss for all interest-bearing financial instruments using the effective interest method.

**2.4.18 Taxes**

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

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

*National Labour Support Tax (NLST)*

NLST is calculated at 2.5% of the profit for the year attributable to the Parent Company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

*Zakat*

Contribution to Zakat is calculated at 1% of the profit for the year attributable to Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

*Sales tax*

Expenses and assets are recognised net of the amount of sales tax, except:

- ▶ When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
  - ▶ When receivables and payables are stated with the amount of sales tax included
- The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.19 Finance costs**

Finance cost are calculated and recognised on a time proportionate basis taking into account the principal finance balance outstanding and the cost rate applicable. Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Capitalisation of financing cost ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

**2.4.20 Foreign currencies**

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**2.4.21 Fiduciary assets**

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.22 Contingencies**

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

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

**2.4.23 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers, distribution methods and nature of regulatory environment where appropriate are aggregated and reported as reportable segments.

**2.4.24 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)****2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Significant judgments**

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

***Classification of real estate properties***

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

***Classification of financial assets***

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

***Control assessment of structured entities***

The Group has ownership interest in structured entities. Structured entities encompass a wide variety of often complex arrangements and require a detailed and specific assessment of the investee's relevant activities and the investor's rights to make decisions about them. Further considerations shall be made as to whether the Group has the practical ability to direct the relevant activities, its exposure to variable returns, and ability to affect those returns by exercising its power over the investee. Reaching a conclusion may involve significant judgement.

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operations if a replacement is not readily available.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)****2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)*****Impairment of associates***

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

***Impairment of financial assets at amortised cost***

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

***Useful lives of depreciable assets***

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

***Valuation of investment properties***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 8.

***Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

***Fair value measurement***

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**3 OTHER INCOME**

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Interest income on bank balances	25,783	86,286
Interest income on receivables from a related party (Note 16)	228,042	216,537
Other income	83,196	58,227
	<u>337,021</u>	<u>361,050</u>

**4 (LOSS) EARNINGS PER SHARE (EPS)**

Basic EPS amounts are calculated by dividing the (loss) profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the (loss) profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	<i>2019</i>	<i>2018</i>
(Loss) profit for the year attributable to the equity holders of the Parent Company (KD)	<u>(6,893,370)</u>	<u>4,014,596</u>
Weighted average number of ordinary shares (shares)	345,648,600	345,648,600
Less: weighted average number of treasury shares (shares)	<u>(9,640,908)</u>	<u>(8,972,458)</u>
Weighted average number of shares outstanding (shares)	<u>336,007,692</u>	<u>336,676,142</u>
Basic and diluted (loss) EPS (fils)	<u>(20.52)</u>	<u>11.92</u>

**5 CASH AND CASH EQUIVALENTS**

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Cash on hand	1,281	82
Bank balances	2,368,129	6,571,185
<b>Cash and cash equivalents as per consolidated statement of financial position</b>	<u>2,369,410</u>	<u>6,571,267</u>
Less: Restricted deposits	<u>(429,586)</u>	<u>(423,910)</u>
<b>Cash and cash equivalents as per consolidated statement of cash flows</b>	<u>1,939,824</u>	<u>6,147,275</u>

Time deposits amounting to KD 429,586 (2018: KD 423,910) are restricted and held against letters of guarantee provided to the Group (Note 23).

## Consolidated Financial Statements

As at and for the year ended 31 December 2019

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2019 KD	2018 KD
<b>Financial assets</b>		
Receivables from related parties (Note 16)	185,818	210,346
Receivables on sale of investment property <sup>1</sup>	3,926,873	3,930,103
Other receivables	158,818	755,077
	<u>4,271,509</u>	<u>4,895,526</u>
<b>Non-financial assets</b>		
Advances to contractors	486,899	363,138
Prepayments and other assets	1,048,021	1,003,251
	<u>1,534,920</u>	<u>1,366,389</u>
	<u><u>5,806,429</u></u>	<u><u>6,261,915</u></u>

<sup>1</sup> Receivable on sale of investment property yield interest at 5.35% (2018: 5.6%) per annum. For further information on terms and conditions relating to related party receivables, refer to Note 16.

The classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

Note 19.2 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's trade receivables. Other classes within accounts receivable do not contain impaired assets.

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 KD	2018 KD
Financial assets at fair value through profit or loss:		
- Unquoted equity securities	8,429,204	9,721,768
	<u>8,429,204</u>	<u>9,721,768</u>

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 21.

Unquoted equity securities represent the Group's interests in unconsolidated structured entities. The Group concluded that it does not control, and therefore should not consolidate the structured entities.

**Details of nature, purpose and activities of unconsolidated structured entities**

The Group is principally involved with structured entities through investments in and sponsoring structured entities that provide specialised investment opportunities. Structured entities are generally used by the Group to finance the purchase of investment properties by issuing debt and equity securities that are collateralised by the assets held in the structured entities.

**Risk associated with unconsolidated structured entities**

Management assessed that the Group's maximum exposure to loss for its involvement with structured entities at the reporting date is the carrying value of these interests. In making the assessment, considerations were made to commitments and guarantees related to these interests and the Group's contractual and non-contractual involvement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

The following table summarises the net asset value of interests in unconsolidated structured entities recognised in the statement of financial position of the Group, as at 31 December:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Assets	<b>40,827,073</b>	44,435,799
Liabilities	<b>26,441,350</b>	30,179,018
Net assets	<b>14,385,723</b>	14,256,781

The structured entities had no contingent liabilities or capital commitments as at 31 December 2019 or 2018.

The Group's interests in unconsolidated structured entities are located in the following geographical locations:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
United States of America	<b>14,385,723</b>	14,256,781
	<b>14,385,723</b>	14,256,781

The following table illustrates the details of income and expenses included in the consolidated statement of profit or loss for structured entities.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Change in fair value of financial assets at fair value through profit or loss	<b>862,441</b>	93,077
Distribution income from financial assets at fair value through profit or loss	<b>632,894</b>	1,347,691
Gain on disposal of financial assets at fair value through profit or loss	<b>1,398,615</b>	-

**8 INVESTMENT PROPERTIES**

The movement in investment properties during the year is as follows:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
At 1 January	<b>64,487,981</b>	65,109,210
Capital expenditure on owned property <sup>1</sup>	<b>4,519,940</b>	6,799,630
Additions <sup>1</sup>	-	4,783,503
Disposals <sup>2</sup>	-	(11,936,545)
Change in fair value <sup>3</sup>	<b>(8,655,684)</b>	(417,480)
Foreign currency translation adjustments	<b>(28,334)</b>	149,663
At 31 December	<b>60,323,903</b>	64,487,981



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**8 INVESTMENT PROPERTIES (continued)**

The Group's investment properties are located in the following geographical locations:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Kuwait	<b>11,110,000</b>	11,100,000
Other GCC countries	<b>49,213,903</b>	53,387,981
	<b><u>60,323,903</u></b>	<b><u>64,487,981</u></b>

<sup>1</sup> During the year ended 31 December 2019, the Group made no additions to investment properties (2018: KD 4,783,503). Further the Group incurred development expenditure of KD 4,519,940 during the year ended 31 December 2019 (2018: KD 6,799,630).

<sup>2</sup> During the year ended 31 December 2019, the Group did not dispose of any properties, whereas in 2018, the Group sold certain investment properties with an aggregate carrying value of KD 11,936,545 for a total consideration of KD 12,460,523 resulting in a realised gain on disposal of KD 523,978.

<sup>3</sup> The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed a decrease of 8,655,684 compared to its carrying values as at 31 December 2019 (2018: KD 417,480).

Investment properties with a carrying value of KD 16,806,879 (2018: KD 21,923,278) are pledged as security to fulfil collateral requirements of certain bank borrowings (Note 15).

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are disclosed in Note 21.2.



# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. AND SUBSIDIARIES

## Consolidated Financial Statements

As at and for the year ended 31 December 2019

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 9 INVESTMENT IN ASSOCIATES

##### Summarised financial information for associates

The following table illustrates the summarised financial information of the associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts.

	<i>Al Yal Seef Residence Company W.L.L.</i>		<i>Al Yal Real Estate Company W.L.L.</i>		<i>First Real Estate Company B.S.C. (Closed)</i>		<i>Cancorp Duisburg S.A.R.L.</i>		<i>Individually immaterial associates</i>		<i>Total</i>	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Current assets	219,015	220,794	21,439,304	2,375,819	22,901,532	15,422,018	230,630	188,382	826,274	2,674,330	45,616,755	20,881,343
Non-current assets	-	-	6,776,506	17,907,953	42,781,108	47,219,300	13,260,201	13,731,876	5,796,064	7,123,828	68,613,879	85,982,957
Current liabilities	69,288	69,913	9,693,971	2,464,388	5,449,914	5,498,919	8,622,769	8,648,649	1,051,853	6,891,773	24,887,795	23,573,642
Non-current liabilities	-	-	-	-	23,797,947	17,710,179	-	-	3,710,274	-	27,508,221	17,710,179
Equity	149,727	150,881	18,521,839	17,819,384	36,434,779	39,432,220	4,868,062	5,271,609	1,860,211	2,906,385	61,834,618	65,580,479
Ownership interest held by the Group	50%	50%	50%	50%	27.812%	27.812%	50%	50%	-	-	-	-
Group's carrying amount of the investment	74,863	75,440	9,260,920	8,909,692	10,133,240	10,966,889	2,434,031	2,635,805	459,417	1,642,624	22,362,471	24,230,450
Revenue	-	477,409	367,818	3,637,749	284,539	5,897,492	1,067,398	1,103,979	(400,875)	1,251,531	1,318,880	12,368,160
(Loss) profit for the year	(606)	160,462	242,542	3,595,002	(1,560,485)	2,103,653	425,508	310,270	(1,043,813)	749,384	(1,936,854)	6,918,771
Other comprehensive income for the year	-	-	-	-	-	(2,562,596)	-	-	-	-	-	(2,562,596)
Total comprehensive (loss) income for the year	(606)	160,462	242,542	3,595,002	(1,560,485)	(458,943)	425,508	310,270	(1,043,813)	749,384	(1,936,854)	4,356,175
Dividends received from associates	-	-	-	-	374,614	371,031	-	-	-	-	374,614	371,031
Group's share of results for the year	(303)	80,231	121,271	1,797,501	(443,923)	585,068	212,754	155,135	(283,266)	132,903	(393,467)	2,750,838

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 9 INVESTMENT IN ASSOCIATES (continued)

A reconciliation of the above summarised financial information to the carrying amount of the associates is set out below:

	<i>Al Yal Seef Residence Company W.L.L.</i>		<i>Al Yal Real Estate Company W.L.L.</i>		<i>First Real Estate Company B.S.C. (Closed)</i>		<i>Cancorp Dutsburg S.A.R.L.</i>		<i>Individually immaterial associates</i>		<i>Total</i>	
	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD	2019 KD	2018 KD
<b>Reconciliation to carrying amounts:</b>												
Opening net assets												
1 January	75,440	4,129,079	8,909,692	5,553,651	10,966,889	11,394,801	2,635,805	2,930,199	1,601,219	24,230,450	25,608,949	
Additions	-	-	243,666	1,519,550	-	8,871	-	-	-	243,666	1,528,421	
Return of capital	-	(4,108,765)	-	-	-	-	(318,070)	(332,170)	(92,329)	(1,218,070)	(4,533,264)	
Share of results for the year	(303)	80,231	121,271	1,797,501	(443,923)	585,068	212,754	155,135	132,903	(393,467)	2,750,838	
Other comprehensive loss	-	-	-	-	-	(712,709)	-	-	-	-	(712,709)	
Foreign currency	(274)	(25,105)	(13,709)	38,990	(15,112)	61,889	(96,458)	(117,359)	831	(125,494)	(40,754)	
Dividends received	-	-	-	-	(374,614)	(371,031)	-	-	-	(374,614)	(371,031)	
At 31 December	<b>74,863</b>	<b>75,440</b>	<b>9,260,920</b>	<b>8,909,692</b>	<b>10,133,240</b>	<b>10,966,889</b>	<b>2,434,031</b>	<b>2,635,805</b>	<b>1,642,624</b>	<b>22,362,471</b>	<b>24,230,450</b>	

The above associates are private entities that are not listed on any stock exchange; therefore, no quoted market prices are available for its shares.

During the year, Ikarus Real Estate Company (an associate) has been liquidated and has been deregistered from the commercial register. The carrying value of the associate amounting to KD 900,000 has been offset against the amount due to the investee company (Note 14). There are no cash inflows/outflows from this transaction and no gain/loss have been recognised during the year then ended.

As at 31 December 2019, investment in associates with a carrying amount of KD 19,280,485 (2018: KD 19,741,741) are pledged as security to fulfil collateral requirements of certain loans and borrowings (Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**10 SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS**

(a) *Share capital*

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	<b>345,648,600</b>	345,648,600	<b>34,564,860</b>	34,564,860

(b) *Share premium*

Share premium is not available for distribution.

(c) *Distributions made and proposed*

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
<b>Cash dividends on ordinary shares declared and paid:</b>		
Final dividend for 2018: 7 fils per share (2017: 6 fils per share)	<b>2,356,238</b>	2,019,633
<b>Proposed dividends on ordinary shares:</b>		
Proposed cash dividend for 2019: 5 fils per share (2018: 7 fils per share)	<b>1,676,811</b>	2,356,238

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

**11 STATUTORY RESERVE**

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfers were made during the year as the Parent Company has incurred losses.

**12 VOLUNTARY RESERVE**

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

**13 TREASURY SHARES**

	<i>2019</i>	<i>2018</i>
Number of treasury shares	<b>10,286,398</b>	<b>9,043,143</b>
Percentage of total outstanding shares (%)	<b>2.98%</b>	<b>2.62%</b>
Cost (KD)	<b>1,017,932</b>	<b>922,378</b>
Market value (KD)	<b>807,482</b>	<b>777,710</b>

Reserves equivalent to the cost of the treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2019 KD	2018 KD
Accounts payable	687,632	393,280
Retentions payable	397,435	1,808,237
Payable to an associate (Note 16)	205,808	962,471
Rental income received in advance	461,181	620,536
Advance received on sale of investment property	2,480,130	2,482,170
Accrued interest	1,069,853	14,870
Accrued expenses	895,267	1,882,004
Lease liabilities	483,166	-
Other liabilities	1,198,411	1,563,134
	<u>7,878,883</u>	<u>9,726,702</u>

For explanations on the Group's liquidity risk management processes, refer to Note 19.2.

15 LOANS AND BORROWINGS

	<i>Currency</i>	<i>Effective interest rate (EIR)</i>	2019 KD	2018 KD
		CBK discount rate		
Bank loans	Kuwaiti Dinar	+1.75% - 2.6%	<u>39,767,159</u>	<u>39,967,159</u>

The Group's secured bank loans comprise:

- ▶ Term loan with limit of KD 40,500,000 (2018: KD 45,000,000), carries an interest rate of 2.6% (2018: 2.6%) per annum over CBK discount rate and repayable over seven annual installments started on 15 July 2018 and ending on 15 July 2024.
- ▶ Revolving loan facility with limit of KD 3,350,000 (2018: KD 5,000,000), carries an interest rate of 1.75% (2018: 1.75%) per annum over CBK discount rate and repayable in one installment on 1 October 2020. At 31 December 2019, the Group had available KD 2,250,000 (2018: Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Bank loans are secured over certain of the Group's investment properties and investment in associates.

Information about the Group's exposure to interest rate and liquidity risks is included in Note 19.

**Changes in liabilities arising from financing activities:**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	2019 KD	2018 KD
<b>As at 1 January</b>	<b>39,967,159</b>	45,367,159
<i>Cash flows:</i>		
Repayments of borrowings	(4,000,000)	(8,900,000)
Proceeds from borrowings	3,800,000	3,500,000
<b>As at 31 December</b>	<u><b>39,767,159</b></u>	<u>39,967,159</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 RELATED PARTY DISCLOSURES

The Group's related parties include its associates, major shareholders, entities under common control, directors and executive officers of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Group's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<b>Consolidated statement of financial position</b>		
Receivables from related parties (Note 6)		
Associate	64,102	88,630
Other related parties	121,716	121,716
	<u>185,818</u>	<u>210,346</u>
Receivables on sale of investment property (Note 6)	<u>3,926,873</u>	<u>3,930,103</u>
Payable to related parties		
Associate (Note 9)	<u>205,808</u>	<u>962,471</u>
<b>Consolidated statement of profit or loss</b>		
Management fees	24,645	36,877
Interest income on receivables from related parties	228,042	216,537
	<u>252,687</u>	<u>253,414</u>

**Terms and conditions of transactions with related parties**

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Except for receivables on sale of investment property (Note 6), outstanding balances at the year-end are unsecured, interest free and repayable on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any allowances for expected credit losses relating to amounts owed by related parties (2018: KD Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**Transactions with key management personnel**

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<i>Compensation of key management personnel of the Group</i>		
Salaries and short-term benefits	353,002	345,417
Employees' end of service benefits	47,163	48,462
	<u>400,165</u>	<u>393,879</u>

The Board of Directors of the Parent Company proposed no directors' remuneration for the year ended 31 December 2019 (2018: KD 105,000).

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 17 SEGMENT INFORMATION

For management purposes, the Group's activities are concentrated in real estate investments. The Group's activities are concentrated in two main segments: Domestic (Kuwait) and International (Kingdom of Bahrain, United Arab Emirates, Saudi Arabia, Qatar, Europe and USA). The Group's segments information are as follows:

	2019			2018		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Rental income	430,580	2,729,573	3,160,153	430,580	3,482,200	3,912,780
Valuation loss from investment properties	(2,249,986)	(6,405,698)	(8,655,684)	(315,123)	(102,357)	(417,480)
Gain on sale of investment properties	-	-	-	-	523,978	523,978
Change in fair value of financial assets at fair value through profit or loss	-	862,441	862,441	-	93,077	93,077
Gain on sale of financial assets at fair value through profit or loss	-	1,398,615	1,398,615	-	-	-
Distribution income from financial assets at fair value through profit or loss	-	632,894	632,894	-	1,347,691	1,347,691
Management fees	-	668,403	668,403	-	550,317	550,317
Share of results of associates	-	(393,467)	(393,467)	(63,140)	2,813,978	2,750,838
Other income	296,395	40,626	337,021	302,823	58,227	361,050
Net foreign exchange differences	(86,625)	-	(86,625)	39,003	-	39,003
Total (loss) income	(1,609,636)	(466,613)	(2,076,249)	394,143	8,767,111	9,161,254
Real estate operating costs	(109,815)	(1,091,701)	(1,201,516)	(90,925)	(979,727)	(1,070,652)
Staff costs	(730,613)	-	(730,613)	(861,691)	-	(861,691)
Depreciation	(126,045)	(29,387)	(155,432)	(4,919)	(12,292)	(17,211)
Administrative expenses	(320,026)	-	(320,026)	(338,840)	-	(338,840)
Consultancy and professional fees	(185,957)	(20,853)	(206,810)	(120,217)	(36,739)	(156,956)
Finance costs	(33,235)	(2,169,489)	(2,202,724)	(59,130)	(2,282,869)	(2,341,999)
Taxation	-	-	-	(192,550)	-	(192,550)
Directors' remuneration	-	-	-	(105,000)	-	(105,000)
Total expenses	(1,505,691)	(3,311,430)	(4,817,121)	(1,773,272)	(3,311,627)	(5,084,899)
<b>(Loss) profit for the year</b>	<b>(3,115,327)</b>	<b>(3,778,043)</b>	<b>(6,893,370)</b>	<b>(1,379,129)</b>	<b>5,455,484</b>	<b>4,076,355</b>

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 17 SEGMENT INFORMATION (continued)

	31 December 2019			31 December 2018		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Total assets	17,980,444	81,929,162	99,909,606	22,065,250	89,299,539	111,364,789
Total liabilities	4,233,990	43,412,052	47,646,042	3,615,920	46,077,941	49,693,861
Commitments	1,668,063	971,711	2,639,774	-	6,615,652	6,615,652
<b>Other disclosures</b>						
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Total non-current assets <sup>1</sup>	11,631,233	80,102,534	91,733,767	11,135,876	87,395,731	98,531,607
Additions to non-current assets <sup>2</sup>	611,402	4,834,423	5,445,825	3,301,655	9,887,696	13,189,351
Investment in associates	-	22,362,471	22,362,471	-	24,230,450	24,230,450

<sup>1</sup>Non-current assets for this purpose consist of property and equipment, financial assets at fair value through profit and loss, investment properties and investment in associates.

<sup>2</sup>Additions to non-current assets consists of additions of property and equipment, investment properties and investment in associates.

#### Disaggregated revenue information

The following presents the disaggregation of the Group's revenue from contracts with customers:

Timing of revenue recognition	31 December 2019			31 December 2018		
	Domestic KD	International KD	Total KD	Domestic KD	International KD	Total KD
Services performed at a point in time	-	608,308	608,308	-	466,259	466,259
Services performed over time	-	60,095	60,095	-	84,037	84,037
	-	668,403	668,403	-	550,296	550,296



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 FIDUCIARY ASSETS

Fiduciary assets comprise real estate investment portfolios managed on behalf of clients. Income earned from fiduciary assets amounted to KD 60,095 for the year ended 31 December 2019 (2018: KD 84,037).

### 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank borrowings and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include receivables and cash and balances that derive directly from its operations. The Group also holds investments in equity instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Parent Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

#### 19.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, other payables, cash at bank, equity investments and certain accounts receivable.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets and (liabilities) at the reporting date:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**19.1 Market risk (continued)**

**a) Foreign currency risk (continued)**

	<i>2019</i> <i>Equivalent</i> <i>KD</i>	<i>2018</i> <i>Equivalent</i> <i>KD</i>
US Dollar (USD)	<b>308,083</b>	4,133,202
Euro (EUR)	<b>257,480</b>	(95,273)
GB Pounds Sterling (GBP)	<b>12,870</b>	12,485
UAE Dirham (AED)	<b>573,730</b>	824,531

*Foreign currency sensitivity*

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

<i>Currency</i>	<i>Change in</i> <i>exchange rate</i>	<i>Effect on profit or loss</i> <i>(relates to monetary financial</i> <i>assets and liabilities)</i>	
		<i>2019</i>	<i>2018</i>
		<i>KD</i>	<i>KD</i>
USD	+10%	<b>30,808</b>	413,320
EUR	+10%	<b>25,748</b>	(9,527)
GBP	+10%	<b>1,287</b>	1,249
AED	+10%	<b>57,373</b>	82,453

There is no sensitivity effect on OCI as the Group has no assets classified as fair value through OCI or designated hedging instruments.

An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

**b) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. During 2019 and 2018, the Group's borrowings at variable rate were mainly denominated in KD.

The Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

*Exposure to interest rate risk*

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows.

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
<b>Variable-rate instruments</b>		
Financial assets	<b>3,926,873</b>	3,930,103
Financial liabilities	<b>(39,767,159)</b>	(39,967,159)
	<b><u>(35,840,286)</u></b>	<b><u>(36,037,056)</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**19.1 Market risk (continued)**

**c) Equity price risk**

The Group's equity investments are susceptible to market price risk arising from uncertainties about future values of the financial assets at fair value through profit or loss.

The Group holds strategic equity investments in structured entities, which complement the Group's operations (Note 7). Management believes that the exposure to market price risk from this activity is acceptable in the Group's circumstances.

At the reporting date, the exposure to unquoted equity investments at fair value was KD 8,429,204 (2018: KD 9,721,768). Sensitivity analyses of these investments have been provided in Note 21.

**19.2 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Bank balances (Note 5)	<b>2,368,129</b>	6,571,185
Accounts receivable and other assets (Note 6)	<b>4,271,509</b>	4,895,526
	<b><u>6,639,638</u></b>	<b><u>11,466,711</u></b>

***Bank balances***

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on cash and cash equivalents and term deposits has been measured on a 12- month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

***Trade receivables***

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

As at 31 December 2019, the maximum credit exposure to a single counterparty amounted to KD 3,926,873 (2018: KD 3,930,103), which is secured by an investment property registered in the name of the Group and can be called upon if the counterparty is in default under the terms of the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**19.2 Credit risk (continued)**

**Other assets**

Other assets are considered to have a low risk of default and management believes that the counterparties have a strong capacity to meet contractual cash flow obligations in the near term. As a result, the impact of applying the expected credit risk model at the reporting date was immaterial.

**19.3 Liquidity risk**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. Approximately 8.80% of the Group's debt will mature in less than one year at 31 December 2019 (2018: 6.25%) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>31 December 2019</b>				
Accounts payable and other liabilities (excluding advances)	6,005,055	697,341	715,309	7,417,705
Loans and borrowings	-	6,614,378	40,353,576	46,967,954
	<u>6,005,055</u>	<u>7,311,719</u>	<u>41,068,885</u>	<u>54,385,659</u>
<b>31 December 2018</b>				
Accounts payable and other liabilities (excluding advances)	7,401,325	1,092,866	611,975	9,106,166
Loans and borrowings	-	4,186,303	46,363,805	50,550,108
	<u>7,401,325</u>	<u>5,279,169</u>	<u>46,975,780</u>	<u>59,656,274</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products.

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>Assets</b>				
Cash and cash equivalents	2,369,410	-	-	2,369,410
Accounts receivable and other assets	1,768,832	4,037,597	-	5,806,429
Financial assets at fair value through profit and loss	-	-	8,429,204	8,429,204
Investment properties	-	-	60,323,903	60,323,903
Interest in investment in associates	-	-	22,362,471	22,362,471
Property and equipment	-	-	618,189	618,189
	<u>4,138,242</u>	<u>4,037,597</u>	<u>91,733,767</u>	<u>99,909,606</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	6,466,237	697,341	715,305	7,878,883
Loans and borrowings	-	4,600,000	35,167,159	39,767,159
	<u>6,466,237</u>	<u>5,297,341</u>	<u>35,882,464</u>	<u>47,646,042</u>
<b>Net liquidity gap</b>	<u>(2,327,995)</u>	<u>(1,259,744)</u>	<u>55,851,303</u>	<u>52,263,564</u>

The maturity profile of assets and liabilities at 31 December 2018:

	<i>Less than 3 months KD</i>	<i>3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
<b>Assets</b>				
Cash and cash equivalents	6,571,267	-	-	6,571,267
Accounts receivable and other assets	2,121,085	4,140,830	-	6,261,915
Financial assets at fair value through profit and loss	-	-	9,721,768	9,721,768
Investment properties	-	-	64,487,981	64,487,981
Interest in investment in associates	-	-	24,230,450	24,230,450
Furniture and equipment	-	-	91,408	91,408
	<u>8,692,352</u>	<u>4,140,830</u>	<u>98,531,607</u>	<u>111,364,789</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	8,021,854	1,092,866	611,982	9,726,702
Loans and borrowings	-	2,500,000	37,467,159	39,967,159
	<u>8,021,854</u>	<u>3,592,866</u>	<u>38,079,141</u>	<u>49,693,861</u>
<b>Net liquidity gap</b>	<u>670,498</u>	<u>547,964</u>	<u>60,452,466</u>	<u>61,670,928</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**21 FAIR VALUE MEASUREMENT**

**Fair value hierarchy**

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

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

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

**21.1 Financial instruments**

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

	<b>Fair value measurement using</b>			
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<i>31 December 2019</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Financial assets at fair value through profit or loss</i>				
Unquoted equity securities	8,429,204	-	-	8,429,204
<i>31 December 2018</i>				
<i>Financial assets at fair value through profit or loss</i>				
Unquoted equity securities	9,721,768	-	-	9,721,768

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

**Valuation techniques**

The Group invests in structured entities that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a NAV based valuation technique for these positions. The NAV of the investments is adjusted, as necessary, to reflect considerations such as market liquidity discounts and other specific factors related to the investments. Accordingly, such instruments are included within Level 3.

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

**Reconciliation of Level 3 fair values**

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

	<i>At 1 January</i>	<i>IFRS 9 transition adjustment</i>	<i>Total gains recognised in profit or loss</i>	<i>Net (sales) and purchases</i>	<i>At 31 December</i>
<i>31 December 2019</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Financial assets at fair value through profit or loss:</i>					
Unquoted equity securities	9,721,768	-	2,261,056	(3,533,620)	8,429,204



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 FAIR VALUE MEASUREMENT (continued)

21.1 Financial instruments (continued)

Reconciliation of Level 3 fair values (continued)

	<i>At 1 January</i>	<i>IFRS 9 transition adjustment</i>	<i>Total gains recognised in profit or loss</i>	<i>Net (sales) and purchases</i>	<i>At 31 December</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>31 December 2018</i>					
<i>Financial assets at fair value through profit or loss:</i>					
Unquoted equity securities	-	10,891,376	93,077	(1,262,685)	9,721,768

Description of significant unobservable inputs to valuation:

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

Significant unobservable valuation inputs	Range	Sensitivity of the input to fair value
Discount for lack of marketability (DLOM)	20%	KD 838,053, 10% (2018: 10%) increase (decrease) in the discount would decrease (increase) the fair value by KD 925,541

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

21.2 Non-financial instruments

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

	Fair value measurement using			
	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>31 December 2019</i>				
Investment properties	<u>60,323,903</u>	<u>-</u>	<u>-</u>	<u>60,323,903</u>
<i>31 December 2018</i>				
Investment properties	<u>64,487,981</u>	<u>-</u>	<u>-</u>	<u>64,487,981</u>

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

Reconciliation for recurring fair value measurement of investment properties categorised within Level 3 of the fair value hierarchy is disclosed in Note 8.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 FAIR VALUE MEASUREMENT (continued)

21.2 Non-financial instruments (continued)

There were no other changes in valuation techniques during the year. The table below illustrates the valuation techniques used to derive to Level 3 fair values and the significant unobservable inputs used in the fair value measurement of investment properties.

<i>Valuation technique</i>	<i>Fair value 2019 KD</i>	<i>Fair value 2018 KD</i>	<i>Key unobservable inputs</i>	<i>Range 2019</i>	<i>Range 2018</i>
Income capitalisation approach	29,321,711	28,078,813	▶ Average rent (per sqm) (KD)	4 – 55	21 - 70
			▶ Yield rate (%)	2.43%-16.42%	4.52%-20.75%
Market comparison approach	31,002,192	36,409,168	▶ Price (per sqm) (KD)	165 – 10,537	165 - 10,587

**Sensitivity analysis**

Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties located in Kuwait.

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		<i>2019 KD</i>	<i>2018 KD</i>
Average rent	+/- 5%	1,466,086	1,403,941
Yield rate	+/- 50 bp	4,716,531	2,132,021
Price per sqm	+/- 5%	6,057,135	1,306,800

22 CAPITAL MANAGEMENT

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

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, transact in treasury shares, issue new shares, or sell assets to reduce debt.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt interest-bearing loans and borrowings, less cash and cash equivalents. For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Parent Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 CAPITAL MANAGEMENT (continued)

	2019 KD	2018 KD
Interest-bearing loans and borrowings	39,767,159	39,967,159
Less: Cash and cash equivalents	(2,369,410)	(6,571,267)
<b>Net debt</b>	<b>37,397,749</b>	<b>33,395,892</b>
Capital	52,263,564	61,670,928
<b>Capital and net debt</b>	<b>89,661,313</b>	<b>95,066,820</b>
Gearing ratio	42%	35%

23 COMMITMENTS AND CONTINGENCIES

*Capital commitments*

As at 31 December 2019, the Group had ongoing construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment properties under development of KD 2,639,774 (2018: KD 6,615,652). There are no contractual commitments in respect of completed investment properties.

*Operating lease commitments – Group as a lessor*

The Group has entered into operating leases on its investment property portfolio. These leases have terms of between one and two years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions.

Future minimum rentals receivable under operating leases as at 31 December are, as follows:

	2019 KD	2018 KD
Within one year	1,283,359	1,244,948
After one year, but not more than 5 years	531,614	3,950,544
	<b>1,814,973</b>	<b>5,195,492</b>

*Operating lease commitments – Group as a lessee*

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2019 KD	2018 KD
Within one year	-	143,957
After one year, but not more than 5 years	-	494,114
	-	<b>638,071</b>

*Legal claim contingency*

The Group operates in the real estate industry and is subject to legal disputes with tenants in the normal course of business. Management does not believe that such proceedings will have a material effect on its results and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 COMMITMENTS AND CONTINGENCIES (continued)

*Contingencies*

	<b>2019</b>	2018
	<b>KD</b>	KD
Letters of guarantee	<b>429,586</b>	423,910

The Group has contingent liabilities in respect of bank guarantee arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. Time deposits amounting to KD 429,586 (2018: KD 423,910) are restricted against letters of guarantee provided to the Group by its bank (Note 5).