



**First Qatar Real Estate Development
Company K.S.C. (Closed) and its Subsidiaries**
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



Building a better
working world



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working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST QATAR REAL ESTATE DEVELOPMENT COMPANY K.S.C. (CLOSED)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of First Qatar Real Estate Development Company K.S.C. (Closed) (the "Parent Company") and its Subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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 consolidated financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST QATAR REAL ESTATE DEVELOPMENT COMPANY K.S.C. (CLOSED) (continued)

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST QATAR REAL ESTATE DEVELOPMENT COMPANY K.S.C. (CLOSED) (continued)

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, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory count 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, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

13 March 2019
Kuwait

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	<i>Notes</i>	2018 KD	2017 KD
Sales of inventory property		-	227,340
Cost of sales - inventory property		-	(198,693)
Other property operating expense		-	(382)
Profit on sale of inventory property		-	28,265
Change in fair value of investment properties	9	2,195,121	(29,789)
Gain on sale of financial assets at fair value through profit or loss		7,096	20,368
Unrealised loss on financial assets at fair value through profit or loss		(169,576)	(378,902)
Dividend income		22,005	22,848
Foreign exchange gain		(941)	(20,998)
Other income	5	52,835	4,935
Consultancy income	6	-	2,159,495
Administrative expenses		(654,821)	(811,457)
Allowance for expected credit losses (2017: provision for impairment of trade receivables)	12	-	(248,115)
PROFIT BEFORE TAX		1,451,719	746,650
Zakat		(14,508)	(6,948)
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		(13,065)	(6,720)
PROFIT FOR THE YEAR		1,424,146	732,982

The attached notes 1 to 22 form part of these consolidated financial statements.

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 KD	2017 KD
Profit for the year	1,424,146	732,982
Other comprehensive (loss) income:		
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>		
Net loss on equity instruments designated at fair value through other comprehensive income	<u>(350,336)</u>	<u>-</u>
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange difference on translation of foreign operations	<u>604,034</u>	<u>(1,443,449)</u>
Total other comprehensive income (loss) for the year	253,698	(1,443,449)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>1,677,844</u>	<u>(710,467)</u>

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Non-current assets			
Property and equipment		45,230	69,222
Properties under development	8	85,653,303	54,352,917
Investment properties	9	34,318,299	24,891,381
Financial assets at fair value through other comprehensive income	10	1,884,751	-
		<u>121,901,583</u>	<u>79,313,520</u>
Current assets			
Financial assets at fair value through profit or loss	11	1,779,034	4,286,596
Accounts receivable and prepayments	12	5,345,157	11,305,861
Cash and Cash equivalents	13	3,079,853	2,601,577
		<u>10,204,044</u>	<u>18,194,034</u>
TOTAL ASSETS		<u>132,105,627</u>	<u>97,507,554</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	50,000,000	50,000,000
Statutory reserve	15	1,028,287	883,115
Voluntary reserve	15	725,625	580,453
Foreign currency translation reserve	15	(839,415)	(1,443,449)
Cumulative changes in fair value		(350,336)	-
Retained earnings		5,596,868	4,463,066
Total equity		<u>56,161,029</u>	<u>54,483,185</u>
Non-current liabilities			
Employees' end of service benefits		222,265	201,187
Term loans	16	61,744,244	34,813,024
Retention payable		6,069,326	2,754,192
		<u>68,035,835</u>	<u>37,768,403</u>
Current liabilities			
Term loans	16	540,800	-
Accounts payable and accruals	17	7,367,963	5,255,966
		<u>7,908,763</u>	<u>5,255,966</u>
Total liabilities		<u>75,944,598</u>	<u>43,024,369</u>
TOTAL EQUITY AND LIABILITIES		<u>132,105,627</u>	<u>97,507,554</u>


Fahad Khalid Al-Ghunaim
Chairman

The attached notes 1 to 22 form part of these consolidated financial statements.

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Total KD
As at 1 January 2018	50,000,000	883,115	580,453	(1,443,449)	-	4,463,066	54,483,185
Profit for the year	-	-	-	-	-	1,424,146	1,424,146
Other comprehensive income (loss) for the year	-	-	-	604,034	(350,336)	-	253,698
Total comprehensive income (loss) for the year	-	-	-	604,034	(350,336)	1,424,146	1,677,844
Transfers to reserves	-	145,172	145,172	-	-	(290,344)	-
As at 31 December 2018	50,000,000	1,028,287	725,625	(839,415)	(350,336)	5,596,868	56,161,029
As at 1 January 2017	50,000,000	808,450	505,788	-	-	3,879,414	55,193,652
Profit for the year	-	-	-	-	-	732,982	732,982
Other comprehensive loss for the year	-	-	-	(1,443,449)	-	-	(1,443,449)
Total comprehensive (loss) income for the year	-	-	-	(1,443,449)	-	732,982	(710,467)
Transfers to reserves	-	74,665	74,665	-	-	(149,330)	-
As at 31 December 2017	50,000,000	883,115	580,453	(1,443,449)	-	4,463,066	54,483,185

The attached notes 1 to 22 form part of these consolidated financial statements.

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit for the year		1,424,146	732,982
<i>Adjustments to reconcile profit for the year to net cash flows:</i>			
Depreciation		27,082	27,472
Provision for employees' end of service benefits		32,628	41,388
Provision for impairment of trade receivables		-	248,115
Change in fair value of investment properties	9	(2,195,121)	29,789
Gain on sale of inventory property (excluding other property operating expense)		-	(45,487)
Gain on sale of financial assets at fair value through profit or loss		(7,096)	(20,368)
Unrealised loss on financial assets at fair value through profit or loss		169,576	378,902
Dividend income		(22,005)	(22,848)
		(570,790)	1,369,945
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		6,138,592	(2,955,783)
Accounts payable and accruals		1,804,235	2,962,557
Retention payable		3,315,134	1,893,214
Net cash flows from operations		10,687,171	3,269,933
Employees' end of service benefits paid		(11,550)	(70,433)
Net cash flows from operating activities		10,675,621	3,199,500
INVESTING ACTIVITIES			
Purchase of items of property and equipment		(3,090)	(14,062)
Capital expenditure on investment properties	9	(4,673,305)	(2,728,676)
Proceeds from sale of inventory property		-	244,180
Capital expenditure on properties under development	8	(32,398,618)	(17,784,884)
Proceeds from sale of financial assets at fair value through profit or loss		109,995	106,168
Dividend income received		22,005	22,848
Net movement in short-term deposits		1,884,869	(1,144,616)
Net cash flows used in investing activities		(35,058,144)	(21,299,042)
FINANCING ACTIVITIES			
Net proceeds from term loans		26,729,555	18,078,510
Net cash flows from financing activities		26,729,555	18,078,510
Effect of foreign currency difference		16,113	(35,568)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,363,145	(56,600)
Cash and cash equivalents at 1 January		716,708	773,308
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13	3,079,853	716,708

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of First Qatar Real Estate Development Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 13 March 2019. The shareholders have the power to amend these consolidated financial statements at the annual general assembly (AGM).

The Parent Company is a closed shareholding Company registered and incorporated in Kuwait on 11 May 2004. The Parent Company's registered office is located in Kuwait City, Abu Baker Al Sideeq street., Gulf Tower, 18th Floor, Al Qibla, Block 14.

The Parent Company's primary objectives include the acquisition of shares and stocks in other companies, lend money to the companies in which it holds stocks, acquisition and lease of patent rights, trade and industrial marks, ownership of real estate properties within the limits permitted by law and investment of surplus funds in securities and properties managed by specialized entities. All activities are carried out in accordance with the Articles of Association and the Memorandum of Incorporation of the Parent Company.

Information of the Group structure is provided in Note 2. Information on other related party relationships of the Group is provided in Note 18.

2.1 BASIS OF PREPARATION

Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for investment properties, financial assets at other comprehensive income 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), while the functional currency of the Parent Company is Qatari Riyals (QAR).

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2018.

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>2018</i>	<i>2017</i>	
<i>Directly held subsidiary</i>				
First Oman Real Estate Development and Tourism Company W.L.L (“First Oman”)	Oman	99%	99%	Real estate
<i>Indirectly held subsidiaries</i>				
<i>Held through First Oman</i>				
First Kuwait Real Estate Investment Company L.L.C	Oman	99%	99%	Real estate
Kuwait Modern Investment Enterprise Company L.L.C	Oman	99%	99%	Real estate
Modern Safat for Real Estate Development Company L.L.C	Oman	99%	99%	Real estate

The Group's effective interest in these subsidiaries is 100%. The Group directly hold the shares in the respective subsidiaries as mentioned above, and the remaining shares are held indirectly in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of the shares in the subsidiary.

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Subsidiaries are those enterprises controlled by the Parent Company. 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; and
- 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 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 statement of profit or loss 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 of the Group 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 into 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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition applied from 1 January 2018

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of inventory properties

Revenue from sale of property is recognised at the point in time when control of the asset is transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised at the point in time only when all the significant conditions are satisfied.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

Consultancy income

Revenue from consultancy income is recognised when the related services are rendered.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition up to 31 December 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of inventory properties

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Rental income

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

Dividend income

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

Consultancy income

Revenue from consultancy income is recognised when the related services are rendered.

Operating leases – Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Property and equipment

Property and equipment is stated at cost less 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 office equipment	4 to 5 years
Computers	4 years
Vehicles	5 years

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 the consolidated statement of 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 consolidated statement of profit or loss when the asset is derecognised.

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

Properties under development

Properties under development for the future use as property and equipment are stated at cost less any impairment in value. The carrying value of these properties is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise. The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Transfers are made to investment properties when, and only when, there is a change in use. For a transfer from investment properties 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.

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.

Term deposit

Term deposit represents deposit with a bank and having an original maturity period between three to twelve months from the date of origination and earns an interest.

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 such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and 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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 consolidated statement of profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventory properties

Properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

First Qatar Real Estate Development Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory properties (continued)

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Financial instruments – initial recognition, subsequent measurement and derecognition

In the current year, the Group has adopted IFRS 9 *Financial Instruments*. See section 2.3 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

Financial assets

Financial assets - Policy effective from 1 January 2018 (IFRS 9)

On initial recognition, a financial asset is measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified at amortised cost or FVOCI as described above are measured at FVTPL.

The Group's financial assets includes FVOCI and FVTPL which are measured at fair value and accounts receivable, amounts due from a related party, term deposits and cash and cash equivalents which are measured at amortised cost.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

b) Classification and subsequent measurement (continued)

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

- | | |
|--------------------------------------|--|
| ▶ Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| ▶ Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| ▶ Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| ▶ Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

Financial assets - Policy effective before 1 January 2018 (IAS 39)

The Group classifies its financial assets at initial recognition into the following categories and is subsequently measured in accordance with IAS 39 as:

- | | |
|---|---|
| ▶ Financial assets at fair value through profit or loss | Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss. |
| ▶ Held-to-maturity financial assets | Measured at amortised cost using the effective interest method. |
| ▶ Loans and receivables | Measured at amortised cost using the effective interest method. |
| ▶ Available-for-sale financial assets (AFS) | Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss. |

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The Group's financial liabilities include accounts payable and accruals, retention payables and term loans.

Subsequent measurement

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

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Term loans

Term loan is carried on the consolidated statement of financial position at their principal amounts. Instalments due within one year are shown as current liabilities and instalments due after one year are shown as non-current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in accounts payable and accruals.

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

c) Derecognition

Financial assets

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

Financial liabilities

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

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

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Policy effective from 1 January 2018 (IFRS 9)

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.

The Group applies a three stage approach to measure the expected credit loss as follows:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Impairment of financial assets (continued)

Policy effective from 1 January 2018 (IFRS 9) (continued)

For trade receivables and contract assets, 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 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 90 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.

Policy effective before 1 January 2018 (IAS 39)

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated.

If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss.
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Reversal of impairment losses are recognised in the consolidated statement of profit or loss to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
 - Held primarily for the purpose of trading
 - Expected to be realised within twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
 - It is held primarily for the purpose of trading
 - It is due to be settled within twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The Group measures financial instruments, such as financial assets at fair value through profit or loss and non-financial assets such as investment properties at each reporting date.

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 to 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.

- 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 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Employees' end of service benefits

The Group provides end of service benefits to all 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. The expected costs of these benefits are accrued over the period of employment.

Zakat

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in consolidated statement of comprehensive income, foreign exchange differences are recognised directly in consolidated statement of comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of profit or loss, all differences are recognised in the consolidated statement of profit or loss.

Group companies

The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their statement of incomes are translated at average exchange rates during the period where such averages are reasonable approximation of actual rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingencies

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

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial instruments'.

The nature and the impact of each amendment is described below:

IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15")

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* with effect from 1 January 2018 using a modified retrospective method of adoption by not restating the comparative information.

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The overall impact assessment in application of IFRS 15 for the Group has been carried out by the management based on comprehensive analysis to evaluate implications on adopting IFRS 15 for the Group.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Sale of inventory properties

For contracts with customers in which the sale of inventory properties are generally expected to be the only performance obligation, adoption of IFRS 15 did not have any material impact on the Group's revenue and income.

Revenue recognition from sale of inventory properties is expected to occur at the point in time when control of the goods are transferred to the customer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised at the point in time only when all the significant conditions are satisfied.

Based on its assessment, the Group did not have any material impact on the application of IFRS 15 in transition to result in significant impact on its past results. Accordingly, no restatements have been made to the consolidated financial statements despite the adoption of the standard on modified retrospective approach.

IFRS 9 'Financial instruments' ('IFRS 9')

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Details of these new requirement as well as their impact on the Group's consolidated financial statements are described below. The Group has not entered into any derivative transactions during the year and not have any outstanding derivative as at date of initial application, hence no related disclosures are included below.

Classification and measurement of financial assets and financial liabilities

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- ▶ Financial assets such as accounts receivable, amounts due from a related party, short term deposits and cash and cash equivalents that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
- ▶ Equity securities that the Group intends to hold for the long term for strategic purposes have been irrevocably designated at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- ▶ Equity securities that the Group designated as at FVTPL under IAS 39 because they were managed on a fair value basis and their performance was monitored on this basis have been classified as mandatorily measured at FVTPL under IFRS 9 beginning 1 January 2018.

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using the effective interest rate method. There have been no changes in the classification and measurement of financial liabilities on the adoption of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected credit loss' ('ECL') model. The new impairment model outlines a 'three stage' model ('general approach') for impairment based on the changes in credit quality since the initial recognition. Under the general approach, ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition (i.e. 'good' exposures), an allowance is to be provided for credit losses that result from default events 'that are possible' within the next 12 months (a 12 month ECL – Stage 1 of the model).

For those credit exposures for which there has been 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 default (a lifetime ECL – Stage 2 of the model).

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2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impairment of financial assets (continued)

Financial assets are assessed as credit impaired (Stage 3 of the model) when one or more events that have a detrimental impact on the estimated future cash flows of those assets have occurred.

An alternative to the 'general approach' is the 'simplified approach' that can be applied to trade receivables or contract assets that do not contain a significant financing component. The loss allowance should be measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL.

The Group has elected to apply the simplified approach. Under the simplified approach, the Group shall apply forward looking provision matrix to calculate the impairment allowance.

For an explanation of how the Group applies the impairment requirements of IFRS 9, refer to the policy under Note 2.2 "Impairment of financial assets".

Classification of financial assets on the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39:

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39</i>	<i>Transition adjustment</i>	<i>New carrying amount under IFRS 9</i>
			<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Financial assets:</i>					
Short-term deposits	Loans and receivables	Amortised cost	2,316,225	-	2,316,225
Cash and cash equivalents	Loans and receivables	Amortised cost	285,352	-	285,352
Investment securities	FVTPL	FVTPL	2,051,509	-	2,051,509
Investment securities	FVTPL	FVOCI	2,235,087	-	2,235,087
Trade receivables	Loans and receivables	Amortised cost	73,351	-	73,351
Amounts due from a related party	Loans and receivables	Amortised cost	320,758	-	320,758
Other receivables	Loans and receivables	Amortised cost	772,348	-	772,348
Total financial assets			8,054,630	-	8,054,630

Hedge accounting

At the date of the initial application, the Group had no existing hedging relationships and therefore the new general hedge accounting model in IFRS 9 has no impact on the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 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.

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3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 financial assets

Effective from 1 January 2018 (IFRS 9)

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.

Effective before 1 January 2018 (IAS 39)

Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, held to maturity, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

Classification of properties

The Group determines whether a property is classified as investment property or inventory property.

Investment property comprises properties which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell on completion of construction.

Determination of functional currency

Functional currency in the consolidated financial statements is determined at the level of each entity within the Group. Identifying the functional currency has a direct impact on which transactions are foreign exchange transactions that give rise to exchange gains and losses and, thereby, on the reported results.

The Parent Company's functional currency is the currency of the primary economic environment in which it operates. When indicators of the primary economic environment are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management determined that the functional currency of the Parent Company is Qatari Riyal (QAR) since the majority of the Parent Company's transactions are denominated in QAR.

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.

Valuation of investment properties

The fair value of investment property is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and location to those of the Group's assets.

Valuation of unquoted investments

Valuation of unquoted investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- Expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted investments requires estimation.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of property and equipment

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- Significant decline in the market value beyond that which would be expected from the passage of time or normal use;
- Significant changes in the technology and regulatory environments
- Evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Impairment of properties under development

A decline in the value of property under development could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property under development whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of financial assets at amortised cost

Effective before 1 January 2018 (IAS 39)

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Effective from 1 January 2018 (IFRS 9)

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.

4 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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16: Leases (continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

5 OTHER INCOME

	2018 KD	2017 KD
Interest income	52,752	4,935
Other miscellaneous income	83	-
	<u>52,835</u>	<u>4,935</u>

6 CONSULTANCY INCOME

On 21 February 2017, the Group entered into a consultancy agreement (the "Agreement") to provide consultancy services relating to the development of various projects for an aggregate fee of QAR 26 million (equivalent to KD 2,159,495). The consultancy works under the Agreement was completed during 2017 and fully acknowledged by the counterparty.

The revenue recognised in relation to the Agreement represents the fair value of consideration received.

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit for the year 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 the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 December, the Group did not have any dilutive shares.

The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding, during the year is as follows:

	2018 KD	2017 KD
Profit for the year	1,424,146	732,982
Weighted average number of ordinary shares outstanding during the year	500,000,000	500,000,000
Basic and diluted earnings per share	<u>2.85 fils</u>	<u>1.47 fils</u>

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8 PROPERTIES UNDER DEVELOPMENT

	2018 KD	2017 KD
Balance at 1 January	54,352,917	36,575,682
Capital expenditure*	33,664,183	17,777,235
Transfer to investment properties **	(2,363,797)	-
Balance at 31 December	85,653,303	54,352,917

Properties under development represent a plot of land located in Pearl Island, Qatar and is currently under development and the construction is expected to complete by July 2019. Properties under development have been pledged as security against term loans payable to foreign financial institution (Note 16).

*Capital expenditure includes borrowing costs capitalised during the year amounting to KD 2,400,367 (2017: KD 669,747).

**During the year, the Group reclassified certain properties under development to investment properties. The carrying value of transferred property comprise the value of land and related development costs amounting to KD 1,107,541 and KD 1,256,256 respectively (Note 9).

Properties under development as at the reporting date comprise the value of land and related development costs amounting to KD 12,701,667 and KD 72,951,636 (2017: KD 13,619,151 and KD 40,733,766) respectively.

At 31 December 2018, the fair value of the land determined by registered independent valuers is KD 32,159,056 (2017: KD 32,832,733). Management believes that the carrying value of the development is not significantly different from its fair value at the reporting date.

9 INVESTMENT PROPERTIES

	2018 KD	2017 KD
Balance at 1 January	24,891,381	22,288,988
Additions*	4,673,304	3,039,027
Transfer from properties under development **	2,363,797	-
Change in fair value	2,195,121	(29,789)
Foreign exchange differences	194,696	(406,845)
Balance at 31 December	34,318,299	24,891,381

*Additions include borrowing costs capitalised during the year amounting to KD 380,856 (2017: KD 428,157).

**During the year, the Group reclassified certain properties under development to investment properties (Note 8).

The fair value of investment properties as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by independent registered valuers not related to the Group, who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined using the market comparison approach considering the nature and usage of each property. 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 increase of KD 2,195,121 compared to its carrying values as at 31 December 2018 (2017: decrease of KD 29,789).

Investment properties include a plot of land located in Qatar with a carrying value of KD 14,288,752 (2017: KD 10,874,203).

Investment properties with the carrying value of KD 25,863,684 (2017: KD 16,536,422) are pledged as a security against term loans payable to a foreign financial institution (Note 16).

Investment properties located in Oman with a carrying value of KD 8,454,615 (2017: KD 8,011,335) are registered under Special Purpose Entities (SPE). These SPEs are beneficially owned by the Parent Company.

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10 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 KD	2017 KD
Unquoted equity securities	1,884,751	-

The unquoted equity securities are transferred to FVOCI as result of adoption of IFRS 9 on 1 January 2018.

Investment portfolio with a carrying value of KD 1,800,000(2017: KD Nil) is managed by a related party (Note 18).

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KD	2017 KD
Quoted equity securities	299,726	398,909
Unquoted equity securities	9,100	2,245,603
Unquoted funds	1,470,208	1,642,084
	<u>1,779,034</u>	<u>4,286,596</u>

Investment portfolio with a carrying value of KD 1,760,793 (2017: KD 4,135,349) is managed by a related party (Note 18).

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018 KD	2017 KD
Trade receivables	3,907,556	3,878,494
Less: Allowance for expected credit losses (2017: provision for impairment of trade receivables)	(3,857,294)	(3,805,143)
	<u>50,262</u>	<u>73,351</u>
Advances to contractors	3,972,358	10,139,404
Amounts due from a related party	326,847	320,758
Other receivables	995,690	772,348
	<u>5,345,157</u>	<u>11,305,861</u>

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Note 20.1 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.

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

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12 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Movements in the allowance for expected credit losses / impairment allowance for trade receivables are as follows:

	2018 KD	2017 KD
At 1 January	3,805,143	3,403,867
Allowance recognised in profit or loss during the year	-	248,115
Foreign exchange differences	52,151	153,161
At 31 December	<u>3,857,294</u>	<u>3,805,143</u>

As at 31 December 2018, unimpaired trade receivables amounting to KD 50,262 (2017: KD 73,351) fall within the 90-120 days ageing bracket.

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to hold collaterals over receivables.

See Note 20.1 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

13 CASH AND CASH EQUIVALENTS

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2018 KD	2017 KD
Cash on hand and at banks	196,722	282,274
Cash held in managed portfolios (Note 18)	2,289	3,078
	<u>199,011</u>	<u>285,352</u>
Short-term deposits	2,880,842	2,316,225
Cash at bank and short-term deposits	3,079,853	2,601,577
Less: Short-term deposits with original maturities of more than 3 months and less than 1 year	-	(1,884,869)
Cash and cash equivalents	<u>3,079,853</u>	<u>716,708</u>

Short-term deposits comprise of deposits with local and foreign financial institutions and carry an average interest rate of 2.25% (2017: 1.130%) per annum.

14 SHARE CAPITAL

	2018 KD	2017 KD
<i>Authorised, issued and fully paid-up:</i>		
500 million (2017: 500 million) shares of 100 (2017: 100) fils each	<u>50,000,000</u>	<u>50,000,000</u>

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15 RESERVES

a) 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 KFAS, Zakat 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.

b) 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 KFAS, Zakat 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.

c) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity and effect of change in functional currency are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statement of profit or loss when the investment is disposed of.

16 TERM LOANS

Term loans represent secured bank loans from a foreign financial institution relating to the development of Hilton Panorama Residences in The Pearl, Qatar (the "project").

Term loans are repayable over a period of 11 years in monthly instalments starting from 22 December 2019 and maturing on 22 November 2030, including a balloon payment of KD 19,405,849. The effective interest rate on this facility is *Qatar Central Bank Money Rate Lending (QMRL) with minimum of 5% (2017: Qatar Central Bank repurchase rate minus 0.5% with minimum of 4%)* till the maturity period. The effective interest rate on the outstanding loan balance as at 31 December 2018 was 5.5% (2017: 5%) per annum. Term loans are secured over certain properties with a carrying value of KD 111,516,987 (2017: KD 70,889,339) (Note 8 and 9).

As at 31 December 2018, the Company had available KD 14 million (2017: KD 38 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Banking covenants according to the loan agreement mainly require that the tangible net worth of the Group to be no less than QAR 400 million and minimum average debt service coverage ratio of 1.2 to be maintained. A future breach of covenant may require the Group to repay the loan together with the accrued interest on demand.

During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

Information about the Group's exposure to interest rate, foreign currency rate and liquidity risks is included in Note 20.

Changes in liabilities arising from financing activities

	1 January 2018 KD	Cash flows inflow/ (outflow) KD	Foreign exchange movement KD	Others	31 December 2018 KD
Non-current interest-bearing term loans	34,813,024	26,729,555	742,465	(540,800)	61,744,244
Current interest-bearing term loans				540,800	540,800
Total liabilities from financing Activities	34,813,024	26,729,555	742,465	-	62,285,044

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16 TERM LOANS (continued)

	<i>1 January 2017 KD</i>	<i>Cash flows inflow/ (outflow) KD</i>	<i>Foreign exchange movement KD</i>	<i>31 December 2017 KD</i>
Non-current interest-bearing term loans	15,636,610	19,965,664	(789,250)	4,813,024
Total liabilities from financing Activities	15,636,610	19,965,664	(789,250)	34,813,024

17 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2018 KD</i>	<i>2017 KD</i>
Payable to contractors	6,318,110	4,281,358
Payable towards acquisition of properties under development	828,900	803,010
Accrued expenses and other payables	220,953	171,598
	<u>7,367,963</u>	<u>5,255,966</u>

18 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders, directors and senior management of the Parent Company, and companies of which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Balances with related parties are included in the consolidated statement of financial position are as follows:

	<i>Major shareholders KD</i>	<i>2018 KD</i>	<i>2017 KD</i>
Cash and cash equivalents	1,707	1,707	2,476

Key management personnel compensation

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

	<i>Transaction value for the year ended 31 December</i>		<i>Balance outstanding as at 31 December</i>	
	<i>2018 KD</i>	<i>2017 KD</i>	<i>2018 KD</i>	<i>2017 KD</i>
Salaries and short-term employee benefits	254,601	260,234	31,329	13,348
End of services benefits	16,760	16,986	135,906	119,146
	<u>271,361</u>	<u>277,220</u>	<u>167,235</u>	<u>132,494</u>

The Board of Directors has not proposed any directors' remuneration for the year ended 31 December 2018 and 2017.

Investment portfolio with a carrying value of KD 3,560,793 (2017: KD 4,135,349) is managed by a related party (Note 10 and 11).

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19 COMMITMENTS

As at 31 December 2018, the Group entered into construction contracts with third parties for the development of certain properties. These contracts will give rise to future capital expenditure for the next five years, as follows:

	2018 KD	2017 KD
<i>Capital expenditure commitments</i>		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property under development and investment properties	<u>8,669,337</u>	<u>36,398,331</u>

The Group has entered into operating leases with respect to its offices, with lease terms between three to five years. The Group has the option to renew such leases.

Operating lease commitments - Group as a lessee

Future minimum lease payments:

Within one year	52,272	32,307
One to five years	13,068	32,670
	<u>65,340</u>	<u>64,977</u>

20 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The main risks arising from the Group's activities are credit risk, liquidity risk and market risk. Market risk is subdivided into interest risk, currency risk and equity price risk. No changes were made in the risk management objectives and policies during the years ended 31 December 2018 and 31 December 2017.

The management of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategy. The management reviews and agrees policies for managing each of these risks which are summarised below:

20.1 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 other receivables) and from its financing activities, including deposits with banks and financial institutions.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets presented in the consolidated statement of financial position.

	2018 KD	2017 KD
Cash at bank and short-term deposits	3,079,853	2,601,577
Trade and other receivables	1,045,952	845,699
Amounts due from a related party	326,847	320,758
Total credit risk exposure	<u>4,452,652</u>	<u>3,768,034</u>

Cash at bank and short-term deposits

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 short 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 short term deposits have low credit risk based on the external credit ratings of the counterparties.

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20 RISK MANAGEMENT (continued)**20.1 Credit risk (continued)***Trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. Outstanding receivables are regularly monitored by management.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, trading history with the Group and existence of previous financial difficulties.

Comparative information under IAS 39

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- ▶ significant financial difficulties of the debtor
- ▶ probability that the debtor will enter bankruptcy or financial reorganisation, and
- ▶ default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows:

	<i>Neither past due nor impaired</i> KD	<i>Past due but not impaired</i>				<i>Total</i> KD
		<i>< 30 days</i> KD	<i>31 – 60 days</i> KD	<i>61-90 days</i> KD	<i>> 90 days</i> KD	
2017	-	-	-	-	73,351	73,351

Impaired trade receivables at 31 December 2017 had a gross carrying amount of KD 3,878,494. At 31 December 2017, there was an impairment loss of KD 3,805,143 related to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

Expected credit loss assessment for trade receivables as at 1 January 2018 and 31 December 2018

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 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 12. The Group does not hold collateral as security.

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20 RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix as at 1 January 2018 and 31 December 2018:

	Current KD	Days past due				Total KD
		<30 days KD	30-60 days KD	61-90 days KD	>90 days KD	
31 December 2018						
Expected credit loss rate *	-	-	-	-	98.71%	
Estimated total gross carrying amount at default	-	-	-	-	3,907,556	3,907,556
Expected credit loss	-	-	-	-	3,857,294	3,857,294
	Current KD	Days past due				Total KD
		<30 days KD	30-60 days KD	61-90 days KD	>90 days KD	
1 January 2018						
Expected credit loss rate *	-	-	-	-	98.11%	
Estimated total gross carrying amount at default	-	-	-	-	3,878,494	3,878,494
Expected credit loss	-	-	-	-	3,805,143	3,805,143

*represents average expected credit loss rate.

Other receivables and amount due from a related party

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.

20.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. To manage this risk, the Group maintains a level of cash and bank balances and other highly marketable securities at an amount in excess of expected cash outflows on financial liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

	Less than 3 months KD	3 to 12 months KD	More than 12 months KD	Total KD
At 31 December 2018				
Accounts payable and accruals	6,367,473	1,000,490	-	7,367,963
Retention payable	-	-	6,069,326	6,069,326
Term loans	-	540,800	65,169,921	65,710,721
	6,367,473	1,541,290	71,239,247	79,148,010

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20 RISK MANAGEMENT (continued)

20.2 Liquidity risk (continued)

<i>At 31 December 2017</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
Accounts payable and accruals	4,318,421	163,068	774,477	5,255,966
Retention payable	-	-	2,754,192	2,754,192
Term loans	-	-	36,553,675	36,553,675
	<u>4,318,421</u>	<u>163,068</u>	<u>40,082,344</u>	<u>44,563,833</u>

20.3 Market risk

Market risk is the risk that the fair value of future cash flows of financial instrument will fluctuate because of changes in market prices. Market prices comprise of interest rate risk, currency risk, and equity price risk.

20.3.1 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 interest bearing assets. (short-term deposits).

The Group manages its interest rate risk by having a balanced portfolio of interest bearing assets and liabilities.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	<i>50 basis points (bps) increase effect on profit</i>	
	<i>2018 KD</i>	<i>2017 KD</i>
Qatari Riyal	292,181	167,494
Kuwaiti Dinar	16,382	5,010

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

The Group analyses its interest rate exposure by taking into consideration refinancing, renewal of existing positions and alternative financing.

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on KD 2,880,842 (2017: KD 2,316,225) interest bearing assets. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

At 31 December 2018, if interest rates had been 50 bps higher / lower with all other variables held constant, the profit for the year would have (decreased) / increased by KD 308,563 (profit for the year ended 31 December 2017: KD 172,504).

20.3.2 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 is exposed to foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Group entities.

The Group manages its foreign currency risk by setting limits for foreign exchange exposure and monitoring the Group's open positions and current and expected exchange rate movements on an ongoing basis. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

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20 RISK MANAGEMENT (continued)**20.3 Market risk (continued)****20.3.2 Foreign currency risk (continued)***Foreign currency sensitivity*

The following table demonstrate the sensitivity to a reasonably possible change in Qatari Riyal (QAR) and Omani Riyal (OMR) exchange rates, with all other variables held constant. The impact on the Group's profit for the year is due to changes in the fair value of monetary assets and liabilities (mainly term loans). The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in currency in %	Effect on profit for the year KD
2018		
QAR	+5%	301,679
OMR	+5%	54,018
2017		
QAR	+5%	394,475
OMR	+5%	53,985

A 5% weakening of the KD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

20.3.3 Equity price risk

Equity price risk is the risk that the fair values of equity securities will fluctuate as a result of changes in the level of equity indices or the value of individual share price. Equity price risk arises from the change in market values of listed equity securities.

The Group's quoted investments are primarily listed on Boursa Kuwait. The effect on profit as a result of changes in fair value of equity instruments classified at fair value through profit or loss arising from a 5% decrease/ increase in equity market index, with all other variables held constant is KD 14,986 (2017: KD 19,945).

The Group's investments in unquoted equities are of strategic nature and are intended to be held for long term. The value of these investments is not significantly sensitive to the volatility in the equity markets.

At the reporting date, the Group's exposure to unlisted equity securities and funds at fair value was KD 3,364,059 (2017: KD 3,887,687).

Sensitivity analyses of these investments have been provided in Note 22.

21 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group includes within net debt, interest bearing loans less cash and short-term deposits. Capital includes total equity of the Group at the reporting date.

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21 CAPITAL MANAGEMENT (continued)

	2018 KD	2017 KD
Term loans	62,285,044	34,813,024
Less: Cash and short-term deposits	(3,079,853)	(2,601,577)
Net debt	59,205,191	32,211,447
Capital	56,161,029	54,483,185
Capital and net debt	115,366,220	86,694,632
Gearing ratio	51.32%	37.16%

22 FAIR VALUE MEASUREMENT

All financial and non-financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

Financial instruments:

Financial instruments comprise financial assets and financial liabilities.

For financial instruments where there is no active market, 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.

The Group's financial assets at fair value through profit or loss are measured in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

For other financial assets and financial liabilities carried at amortized cost, management assessed that the carrying value is not significantly different from their fair values largely due to the short-term maturities of these instruments.

Non-financial instruments:

Investment properties (excluding the property under development which are carried at cost) are fair valued and are classified under level 3.

The following table shows an analysis of financial and non-financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD	
At 31 December 2018				
Financial instruments:				
Financial assets at fair value through profit or loss	299,726	-	1,479,308	1,779,034
Financial assets at fair value through other comprehensive income	-	-	1,884,751	1,884,751
Non-financial instruments:				
Investment properties	-	-	34,318,299	34,318,299
	<u>299,726</u>	<u>-</u>	<u>37,682,358</u>	<u>37,982,084</u>

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22 FAIR VALUE MEASUREMENT (continued)

	<i>Fair value measurement using</i>			<i>Total KD</i>
	<i>Quoted prices in active markets (Level 1) KD</i>	<i>Significant observable inputs (Level 2) KD</i>	<i>Significant unobservable inputs (Level 3) KD</i>	
<i>At 31 December 2017</i>				
<i>Financial instruments:</i>				
Financial assets at fair value through profit or loss	398,909	-	3,887,687	4,286,596
<i>Non-financial instruments:</i>				
Investment properties	-	-	24,891,381	24,891,381
	<u>398,909</u>	<u>-</u>	<u>28,779,068</u>	<u>29,177,977</u>

There were no transfers between Level 1 and Level 2 fair value measurements during the year, and no transfers into or out of Level 3 fair value measurements during the year ended 31 December 2018.

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>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
2018			
As at 1 January 2018	-	3,887,687	3,887,687
IFRS 9 transition adjustment	2,235,087	(2,235,087)	-
Remeasurement recognised in OCI	(350,336)	-	(350,336)
Remeasurement recognised in profit or loss	-	(171,876)	(171,876)
Purchases / sales (net)	-	(1,416)	(1,416)
As at 31 December 2018	<u>1,884,751</u>	<u>1,479,308</u>	<u>3,364,059</u>
2017		<i>Financial assets at fair value through profit or loss KD</i>	<i>Total KD</i>
As at 1 January 2017		4,264,425	4,264,425
Total gains (losses) recognised in profit or loss		(372,414)	(372,414)
Purchases / sales (net)		(4,324)	(4,324)
As at 31 December 2017		<u>3,887,687</u>	<u>3,887,687</u>

Description of significant unobservable inputs

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Range (+/-)</i>	<i>Sensitivity of the input to fair value</i>
Financial assets at fair value through other comprehensive income - Unquoted equity securities	Adjusted NAV	Discount for lack of marketability (DLOM)	25%	Increase (decrease) in the discount would decrease (increase) the fair value.

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22 FAIR VALUE MEASUREMENT (continued)

Reconciliation of fair value measurement of investment properties categorised within Level 3 of the fair value hierarchy:

	2018 KD	2017 KD
Balance at beginning of year	24,891,381	22,288,988
Additions and transfers	7,037,101	3,039,027
Remeasurement recognised in consolidated statement of profit or loss	2,195,121	(29,789)
Foreign exchange differences	194,696	(406,845)
Balance at end of year	34,318,299	24,891,381

Description of valuation techniques used and key inputs to valuation of investment properties:

Valuation technique	Fair value 2018 KD	Fair value 2017 KD	Key unobservable inputs	Range 2018 KD	Range 2017 KD
Market comparison approach	34,318,299	24,891,381	Price (per sqm)	79-618	90-647

Sensitivity analysis

Significant increase (decrease) in 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 Oman and Qatar:

	Changes in valuation assumptions	Impact on profit for the year	
		2018 KD	2017 KD
Price per sqm	+/- 5%	498,005	490,801

