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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

Building a better working world

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 consolidated 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 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our 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.

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74, Safat
13001 Safat, Kuwait
Baitak Tower, 18–20th Floor
Safat Square
Ahmed Al Jaber Street
Kuwait

Tel: +965 2295 5000 /
+965 2295 2880
Fax: +965 2245 6419

www.ey.com

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 2019 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

12 July 2020
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	***2019*** ***KD***	*2018* *KD*
Change in fair value of investment properties	8	**42,707**	2,195,121
Gain on sale of financial assets at fair value through profit or loss		**19,190**	7,096
Unrealised gain (loss) on financial assets at fair value through profit or loss		**121,044**	(169,576)
Dividend income		**11,432**	22,005
Foreign exchange loss		**(3,820)**	(941)
Other income	4	**480,958**	52,835
Administrative expenses		**(486,845)**	(654,821)
Pre-operating expenses		**(817,523)**	-
(LOSS) PROFIT BEFORE TAX		**(632,857)**	1,451,719
Zakat		-	(14,508)
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		-	(13,065)
(LOSS) PROFIT FOR THE YEAR		**(632,857)**	1,424,146
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**(1.27) fils**	**2.85 fils**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 ***KD***	*2018* *KD*
(Loss) profit for the year	**(632,857)**	1,424,146
Other comprehensive loss:		
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Net loss on equity instruments designated at fair value through other comprehensive income	**(67)**	(350,336)
Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of foreign operations	**(49,816)**	604,034
Other comprehensive (loss) income for the year	**(49,883)**	253,698
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(682,740)**	1,677,844

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	*2019* *KD*	*2018* *KD*
ASSETS			
Non-current assets			
Property and equipment		**25,349**	45,230
Right-of-use assets	6	**1,255,776**	-
Properties under development	7	**108,176,544**	85,653,303
Investment properties	8	**13,093,797**	34,318,299
Financial assets at fair value through other comprehensive income	9	**1,884,684**	1,884,751
		124,436,150	121,901,583
Current assets			
Inventory properties		**22,061,251**	-
Financial assets at fair value through profit or loss	10	**890,168**	1,779,034
Accounts receivable and prepayments	11	**1,466,379**	5,345,157
Cash and cash equivalents	12	**1,421,034**	3,079,853
		25,838,832	10,204,044
TOTAL ASSETS		**150,274,982**	132,105,627
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**50,000,000**	50,000,000
Statutory reserve	14	**1,028,287**	1,028,287
Voluntary reserve	14	**725,625**	725,625
Foreign currency translation reserve	14	**(889,231)**	(839,415)
Cumulative changes in fair value		**(350,403)**	(350,336)
Retained earnings		**4,964,011**	5,596,868
Total equity		**55,478,289**	56,161,029
Non-current liabilities			
Employees' end of service benefits		**262,005**	222,265
Term loans	15	**79,180,116**	61,744,244
Retention payable		**5,849,816**	6,069,326
Lease liabilities	6	**864,462**	-
		86,156,399	68,035,835
Current liabilities			
Term loans	15	**4,309,670**	540,800
Accounts payable and accruals	16	**4,060,220**	7,367,963
Lease liabilities	6	**270,404**	-
		8,640,294	7,908,763
Total liabilities		**94,796,693**	75,944,598
TOTAL EQUITY AND LIABILITIES		**150,274,982**	132,105,627

Fahad Khalid Al-Ghunaim
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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*
At 1 January 2019	50,000,000	1,028,287	725,625	(839,415)	(350,336)	5,596,868	56,161,029
Loss for the year	-	-	-	-	-	(632,857)	(632,857)
Other comprehensive loss for the year	-	-	-	(49,816)	(67)	-	(49,833)
Total comprehensive loss for the year	-	-	-	(49,816)	(67)	(632,857)	(682,740)
As at 31 December 2019	**50,000,000**	**1,028,287**	**725,625**	**(889,231)**	**(350,403)**	**4,964,011**	**55,478,289**
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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	*2019* *KD*	*2018* *KD*
OPERATING ACTIVITIES			
(Loss) profit for the year		**(632,857)**	1,424,146
Adjustments to reconcile (loss) profit for the year to net cash flows:			
Depreciation of property and equipment and right of use of assets		**105,556**	27,082
Provision for employees' end of service benefits		**44,350**	32,628
Finance costs		**8,923**	-
Change in fair value of investment properties	8	**(42,707)**	(2,195,121)
Gain on sale of financial assets at fair value through profit or loss		**(19,190)**	(7,096)
Unrealised (gain) loss on financial assets at fair value through profit or loss		**(121,044)**	169,576
Dividend income		**(11,432)**	(22,005)
		(668,401)	(570,790)
Working capital adjustments:			
Accounts receivable and prepayments		**3,901,366**	6,138,592
Accounts payable and accruals		**(3,057,366)**	1,804,235
Retention payable		**(219,510)**	3,315,134
Cash flows (used in) from operations		**(43,911)**	10,687,171
Employees' end of service benefits paid		**(4,610)**	(11,550)
Net cash flows (used in) from operating activities		**(48,521)**	10,675,621
INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(3,781)**	(3,090)
Capital expenditure on investment properties	8	**(812,780)**	(4,673,305)
Capital expenditure on properties under development	7	**(22,612,729)**	(32,398,618)
Proceeds from sale of financial assets at fair value through profit or loss		**1,029,100**	109,995
Dividend income received		**11,432**	22,005
Net movement in short-term deposits		-	1,884,869
Net cash flows used in investing activities		**(22,388,758)**	(35,058,144)
FINANCING ACTIVITIES			
Net proceeds from term loans		**21,039,161**	26,729,555
Payment of lease liabilities		**(260,086)**	-
Net cash flows from financing activities		**20,779,075**	26,729,555
Effect of foreign currency difference		**(615)**	16,113
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,658,819)**	2,363,145
Cash and cash equivalents at 1 January		**3,079,853**	716,708
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12	**1,421,034**	3,079,853
Non-cash transactions excluded from consolidated statement of cash flows			
Transitional adjustment to lease liabilities on adoption of IFRS 16		**183,310**	-
Transitional adjustment to right-to-use of assets on adoption of IFRS 16		**(183,310)**	-
Additions to lease liabilities		**1,198,040**	-
Additions to right-to-use of assets		**(1,198,040)**	-
Transfer from investment properties to inventory property		**22,061,250**	-

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

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 2019 were authorised for issue in accordance with a resolution of the directors on 12 July 2020. 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 17.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation
The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiaries as at 31 December 2019.

The consolidated financial statements of the Group include:

Name	*Country of incorporation*	*% equity interest*		*Principal activities*
		2019	*2018*	
Directly held subsidiary				
First Oman Real Estate Development and Tourism Company W.L.L ("First Oman")	Oman	**99%**	99%	Real estate
First Hotel W.L.L.	Qatar	**100%**	-	Five Star hotel
Indirectly held subsidiaries				
Held through First Oman				
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 indirectly held subsidiaries are 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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
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.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition

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

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 financial assets at FVOCI and FVTPL which are measured at fair value and accounts receivable, amounts due from a related party and cash and cash equivalents which are measured at amortised cost.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

▶ 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 arerecognised 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 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, lease liabilities 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

c) Derecognition (continued)

Financial assets (continued)
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
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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
For the purpose of the consolidated 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.

Further, with respect to national employees, the Group also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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.

Foreign currencies
Each entity in the Group determines its own functional currency and items included in the consolidated 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.

Pre-operating expenses
Pre-operating expenses relates to staff costs, administrative expenses and marketing expenses incurred during the soft opening phase of the hotel and are expensed as incurred.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

On 23 January 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current. The amendment is required to be applied for annual periods beginning on or after 1 January 2022 and the amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors. Earlier* application is permitted.

The amendments to the requirements for classifying liabilities as current or non-current is not expected to have a significant impact on the Group's consolidated financial statements.

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

2.4 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

New standards, interpretations, and amendments adopted by the Group

IFRS 16 - *Leases*
IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

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

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

The adoption IFRS 16 did not have impact on the retained earnings as at as at 1 January 2019.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

IFRS 16 – *Leases (continued)*

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	KD
Assets	
Right-of-use assets	183,310
Liabilities	
Lease liabilities	183,310

The Group discounted lease payments using its incremental weighted average borrowing rate as at 1 January 2019 of 6%.

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under accounts receivable and prepayments and accounts payable and accruals, respectively.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The Group also applied the available practical expedients wherein it:

- Elected to use the transition practical expedient to not reassess whether a contract is or contains a lease as at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 as at 1 January 2019
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before 1 January 2019
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of 1 January 2019
- Excluded the initial direct costs from the measurement of the right-of-use asset as at 1 January 2019
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of-use assets of KD 183,310 were recognised and presented separately in the consolidated statement of financial position.
- Additional lease liabilities of KD 183,310 were recognised and presented separately in the consolidated statement of financial position.

b) Summary of new accounting policies

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

- *Group as a lessee*

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

IFRS 16 – *Leases (continued)*

b) Summary of new accounting policies (continued)

▶ *Right-of-use assets*

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

Right-of-use assets are subject to impairment.

▶ *Lease liabilities*

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

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

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

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

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

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.

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:

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant judgments (continued)

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

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 om 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.

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

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

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

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

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.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Estimation of net realisable value for inventory properties
Inventory properties are stated at the lower of cost and net realisable value (NRV). NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and also in the light of recent market transactions.

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.

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 consolidated 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
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.

Leases - Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

4 OTHER INCOME

	2019 *KD*	*2018* *KD*
Interest income	**29,225**	52,752
Other miscellaneous income	**16,693**	83
Impaired receivables recovered	**435,040**	-
	480,958	52,835

5 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share is calculated by dividing the (loss) profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted (loss) earnings per share is calculated by dividing the (loss) 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 (loss) earnings per share based on the weighted average number of shares outstanding, during the year is as follows:

	2019 *KD*	*2018* *KD*
Loss (profit) for the year	**(632,857)**	1,424,146
Weighted average number of ordinary shares outstanding during the year	**500,000,000**	500,000,000
Basic and diluted (loss) earnings per share	**(1.27) fils**	2.85 fils

6 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As a lessee, the Group leases properties that do not meet the definition of investment property consisting of offices, staff accommodations and motor vehicles. The Group generally enter into lease agreements for periods varying between 1 and 5 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2019 *KD*
As at 1 January	183,310
Additions	1,198,040
Depreciation	(121,702)
Foreign exchange differences	(3,872)
As at 31 December	**1,255,776**

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	2019 *KD*
As at 1 January	183,310
Additions	1,198,040
Accretion of interest	13,564
Payments	(260,086)
Foreign exchange differences	38
As at 31 December	**1,134,866**
Non-current	864,462
Current	270,404
As at 31 December	**1,134,866**

The maturity analysis of lease liabilities is disclosed in Note 19.

6 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The following are the amounts recognised in consolidated statement of profit or loss.

	2019 ***KD***
Depreciation expense of right-of-use assets	81,894
Interest expense on lease liabilities	8,923
Total amount recognised in consolidated statement of profit or loss	**90,817**

7 PROPERTIES UNDER DEVELOPMENT

	2019 ***KD***	*2018* *KD*
Balance at 1 January	**85,653,303**	54,352,917
Capital expenditure*	**22,612,729**	32,398,618
Transfer to investment properties **	-	(2,363,797)
Foreign exchange differences	**(89,488)**	1,265,565
Balance at 31 December	**108,176,544**	85,653,303

Properties under development represent a plot of land located in Pearl Island, Qatar. Properties under development is constructed on a land that is on a 99-year lease. Properties under development have been pledged as security against term loans payable to foreign financial institution (Note 15).

*Capital expenditure includes borrowing costs capitalised during the year amounting to KD 3,928,015 (2018: KD 2,400,367).

**During the previous year, the Group transferred 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 8).

Properties under development as at the reporting date comprise the value of land and related development costs amounting to KD 12,690,822 and KD 95,485,722 (2018: KD 12,701,667 and KD 72,951,636) respectively.

At 31 December 2019, the fair value of the land determined by registered independent valuers is KD 32,131,969 (2018: KD 32,159,056). Management believes that the carrying value of the development is not significantly different from its fair value at the reporting date.

8 INVESTMENT PROPERTIES

	2019 ***KD***	*2018* *KD*
Balance at 1 January	**34,318,299**	24,891,381
Additions*	**812,780**	4,673,304
Transfer from properties under development **	-	2,363,797
Transfer to inventory properties ***	**(22,061,251)**	-
Change in fair value	**42,707**	2,195,121
Foreign exchange differences	**(18,738)**	194,696
Balance at 31 December	**13,093,797**	34,318,299

*Additions include borrowing costs capitalised during the year amounting to KD 518,051 (2018: KD 380,856).

**During the previous year, the Group transferred certain properties under development to investment properties (Note 7).

**During the year, the Group transferred certain investment properties to inventory properties and the same is also pledged as a security against term loans payable to a foreign financial institution (Note 15).

8 INVESTMENT PROPERTIES (continued)

The fair value of investment properties as at 31 December 2019 and 31 December 2018 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 42,707 compared to its carrying values as at 31 December 2019 (2018: KD 2,195,121).

Investment properties includes plot of land located in Qatar with a carrying value of KD 2,802,285 (2018: KD 14,288,752).

Investment properties with a carrying value of KD 4,596,844 (2018: KD 25,863,684) are pledged as a security against term loans payable to a foreign financial institution (Note 15).

Investment properties located in Oman with a carrying value of KD 8,496,954 (2018: KD 8,454,615) are registered under Special Purpose Entities (SPE). These SPEs are beneficially owned by the Parent Company.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	*2018*
	KD	*KD*
Unquoted equity securities	**1,884,684**	1,884,751

Investment portfolio with a carrying value of KD 1,800,000 (2018: KD 1,800,000) is managed by a related party (Note 17).

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	*2018*
	KD	*KD*
Quoted equity securities	**33,838**	299,726
Unquoted equity securities	-	9,100
Unquoted funds	**856,330**	1,470,208
	890,168	1,779,034

Investment portfolio with a carrying value of KD 869,001 (2018: KD 1,760,793) is managed by a related party (Note 17).

11 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2019	*2018*
	KD	*KD*
Trade receivables	**3,397,096**	3,907,556
Less: allowance for expected credit losses	**(3,372,061)**	(3,857,294)
	25,035	50,262
Advances to contractors	-	3,972,358
Amounts due from a related party	**326,295**	326,847
Deposits and prepayments	**268,027**	220,522
Other receivables	**847,022**	775,168
	1,466,379	5,345,157

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.

11 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Note 19.1 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.

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

	2019 ***KD***	*2018* *KD*
At 1 January	**3,857,294**	3,805,143
Reversal for allowance for expected credit losses	**(435,040)**	-
Foreign exchange differences	**(50,193)**	52,151
At 31 December	**3,372,061**	3,857,294

As at 31 December 2019, unimpaired trade receivables amounting to KD Nil (2018: KD 50,262) 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 19.1 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.

12 CASH AND CASH EQUIVALENTS

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

	2019 ***KD***	*2018* *KD*
Cash on hand and at banks	**399,636**	196,722
Cash held in managed portfolios (Note 17)	**1,049**	2,289
	400,685	199,011
Short-term deposits maturing within three months	**1,020,349**	2,880,842
Cash at bank and short-term deposits	**1,421,034**	3,079,853
Cash and cash equivalents	**1,421,034**	3,079,853

Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group with local and foreign financial institutions and carry an average effective interest rate of 2.25% (2018: 2.25%) per annum.

13 SHARE CAPITAL

	2019 ***KD***	*2018* *KD*
Authorised, issued and fully paid-up:		
500 million (2018: 500 million) shares of 100 (2018: 100) fils each	**50,000,000**	50,000,000

14 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.

15 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 have been denominated in Qatari Riyals.

Term loans are repayable over a period of 15 years in monthly instalments starting from 29 February 2020 and maturing on 31 October 2034, including a balloon payment of KD 20,698,758. The effective interest rate on this facility is *Qatar Central Bank Money Rate Lending (QMRL) with minimum of 5.75% (2018: Qatar Central Bank Money Rate Lending (QMRL) with minimum of 5%)* till the maturity period. The effective interest rate on the outstanding loan balance as at 31 December 2019 was 5.75% (2018: 5.5%) per annum. Term loans are secured over certain properties with a carrying value of KD 134,834,637 (2018: KD 111,516,987) (Note 7 and 8).

As at 31 December 2019, the Group had available KD 5.8 million (2018: KD 14 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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

	2019 ***KD***	*2018* *KD*
Current	**4,309,670**	540,800
Non-current	**79,180,116**	61,744,244
Cash and cash equivalents	**83,489,786**	62,285,044

Changes in liabilities arising from financing activities

	1 January 2019 KD	***Cash flows inflow/(outflow) KD***	***Foreign exchange movement KD***	***31 December 2019 KD***
Interest-bearing term loans	**62,285,044**	**21,039,161**	**165,581**	**83,489,786**
Total liabilities from financing Activities	**62,285,044**	**21,039,161**	**165,581**	**83,489,786**

15 TERM LOANS (continued)

Changes in liabilities arising from financing activities (continued)

	1 January 2018 KD	*Cash flows inflow/(outflow) KD*	*Foreign exchange movement KD*	*31 December 2018 KD*
Interest-bearing term loans	**34,813,024**	**26,729,555**	**742,465**	**62,285,044**
Total liabilities from financing Activities	**34,813,024**	**26,729,555**	**742,465**	**62,285,044**

16 ACCOUNTS PAYABLE AND ACCRUALS

	2019 KD	*2018 KD*
Payable to contractors	**3,733,042**	6,318,110
Payable towards acquisition of properties under development	-	828,900
Accrued expenses and other payables	**327,178**	220,953
	4,060,220	7,367,963

17 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:

	Major shareholders KD	***2019 KD***	*2018 KD*
Cash and cash equivalents	**467**	**467**	1,707

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:

	Transaction value for the year ended 31 December		*Balance outstanding as at 31 December*	
	2019 KD	*2018 KD*	***2019 KD***	*2018 KD*
Salaries and short-term employee benefits	**254,538**	254,601	**31,093**	31,329
End of services benefits	**16,757**	16,760	**152,693**	135,906
	271,295	271,361	**183,786**	167,235

The Board of Directors has not proposed any directors' remuneration for the year ended 31 December 2019 and 2018.

Investment portfolio with a carrying value of KD 2,669,001 (2018: KD 3,560,793) is managed by a related party (Note 9 and 10).

18 COMMITMENTS

As at 31 December 2019, 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:

	2019	*2018*
	KD	*KD*
Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property under development and investment properties	-	8,669,337

19 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 2019 and 31 December 2018.

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:

19.1 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.

	2019	*2018*
	KD	*KD*
Cash at bank and short-term deposits	**1,408,410**	3,079,853
Trade and other receivables	**1,140,084**	1,045,952
Amounts due from a related party	**326,295**	326,847
Total credit risk exposure	**2,874,789**	4,452,652

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.

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.

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.

19 RISK MANAGEMENT (continued)

19.1 Credit risk (continued)

Expected credit loss assessment for trade receivables as at 31 December 2018 and 31 December 2019
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 Group does not hold collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix as at 31 December 2018 and 31 December 2019:

		Days past due				
	Current	*<30 days*	*30-60 days*	*61-90 days*	*>90 days*	*Total*
31 December 2019	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Expected credit loss rate *	-	-	-	-	99.26%	
Total gross carrying amount at default	-	-	-	-	3,397,096	3,397,096
Expected credit loss	-	-	-	-	**3,372,061**	**3,372,061**

		Days past due				
	Current	*<30 days*	*30-60 days*	*61-90 days*	*>90 days*	*Total*
31 December 2018	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Expected credit loss rate *	-	-	-	-	98.71%	
Total gross carrying amount at default	-	-	-	-	3,907,556	3,907,556
Expected credit loss	-	-	-	-	3,857,294	3,857,294

*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.

19.2 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.

19 RISK MANAGEMENT (continued)

19.2 Liquidity risk (continued)

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:

At 31 December 2019	***1 to 12 Months KD***	***More than 12 months KD***	***Total KD***
Accounts payable and accruals	**4,060,220**	**-**	**4,060,220**
Retention payable	**-**	**5,849,816**	**5,849,816**
Term loans	**4,309,670**	**85,118,625**	**89,428,295**
Lease liabilities	**403,643**	**1,036,223**	**1,439,866**
	8,773,533	**92,004,664**	**100,778,197**

At 31 December 2018	*1 to 12 months KD*	*More than 12 months KD*	*Total KD*
Accounts payable and accruals	7,367,963	-	7,367,963
Retention payable	-	6,069,326	6,069,326
Term loans	540,800	65,169,921	65,710721
	7,908,763	67,813,570	75,722,333

19.3 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.

19.3.1 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) and interest bearing liabilites (term loans).

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 (loss) profit before tax is follows:

	50 basis points (bps) increase effect on (loss) profit	
	2019 KD	*2018 KD*
Qatari Riyal	**(413,097)**	(306,559)
Kuwaiti Dinar	**750**	3,276

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 1,020,349 (2018: KD 2,880,842) interest bearing assets and KD 83,489,786 (2018: KD 62,285,044) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

19 RISK MANAGEMENT (continued)

19.3 Market risk (continued)

19.3.2 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 it foreign currency risk by setting limits for foreign exchange exposure and 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.

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 (loss) profit for the year is due to changes in the fair value of monetary assets and liabilities (mainly term loans).are not material.

19.3.3 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 (loss) 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 1,692 (2018: KD 14,986).

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 2,741,014 (2018: KD 3,364,059).

Sensitivity analyses of these investments have been provided in Note 21.

20 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.

	2019	*2018*
	KD	*KD*
Term loans	**83,489,786**	62,285,044
Less: Cash and short-term deposits	**(1,421,034)**	(3,079,853)
Net debt	**82,068,752**	59,205,191
Capital	**55,478,289**	56,161,029
Capital and net debt	**137,547,041**	115,366,220
Gearing ratio	**59.66%**	51.32%

21 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			
At 31 December 2019	***Quoted prices in active markets (Level 1) KD***	***Significant observable inputs (Level 2) KD***	***Significant unobservable inputs (Level 3) KD***	***Total KD***
Financial instruments:				
Financial assets at fair value through profit or loss	**33,838**	-	**856,330**	**890,168**
Financial assets at fair value through other comprehensive income	-	-	**1,884,684**	**1,884,684**
Non-financial instruments:				
Investment properties	-	-	**13,093,797**	**13,093,797**
	33,838	-	**15,834,811**	**15,868,649**

21 FAIR VALUE MEASUREMENT (continued)

At 31 December 2018	*Fair value measurement using* *Quoted prices in active markets (Level 1) KD*	*Significant observable inputs (Level 2) KD*	*Significant unobservable inputs (Level 3) KD*	*Total KD*
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
	299,726	-	37,682,358	37,982,084

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 2019.

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:

2019	***Financial assets at FVOCI KD***	***Financial assets at FVTPL KD***	***Total KD***
As at 1 January 2019	1,884,751	1,479,308	3,364,059
Remeasurement recognised in OCI	(67)	-	(67)
Remeasurement recognised in profit or loss	-	41,197	41,197
(Purchases) / sales (net)	-	(664,175)	(664,175)
As at 31 December 2019	**1,884,684**	**856,330**	**2,741,014**

2018	*Financial assets at FVOCI KD*	*Financial assets at FVTPL KD*	*Total KD*
As at 1 January 2018	-	3,887,687	3,887,687
IFRS 9 transition adjustment	2,235,087	(2,235,087)	-Re-
measurement 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	1,884,751	1,479,308	3,364,059

Description of significant unobservable inputs

	Valuation technique	***Significant unobservable inputs***	***Range (+/-)***	***Sensitivity of the input to fair value***
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 by 5% would decrease (increase) the fair value by KD 90,000.

21 FAIR VALUE MEASUREMENT (continued)

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

	2019 KD	*2018 KD*
Balance at beginning of year	**34,318,299**	24,891,381
Additions	**812,780**	4,673,304
Transfers	**(22,061,251)**	2,363,797
Remeasurement recognised in consolidated statement of profit or loss	**42,707**	2,195,121
Foreign exchange differences	**(18,738)**	194,696
Balance at end of year	**13,093,797**	34,318,299

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

Valuation technique	***Fair value 2019 KD***	*Fair value 2018 KD*	*Key unobservable inputs*	***Range 2019 KD***	*Range 2018 KD*
Market comparison approach	**13,093,797**	34,318,299	Price (per sqm)	**85-654**	79-618

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 (loss) profit for the year*	
		2019 KD	*2018 KD*
Price per sqm	+/- 5%	**654,689**	1,715,915

22 SUBSEQUENT EVENTS

On 11 March 2020, COVID-19 was declared as pandemic by the World Health Organisation and is causing disruptions to businesses and economic activities. There is also high volatility in the financial markets worldwide. The existing and anticipated effects of the outbreak of COVID-19 on the global economy and financial markets is expected to continue to evolve. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Group’s financial performance, cash flows and consolidated financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements.

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