

Consolidated financial statements and independent auditor's report

**Sanam Real Estate Company – KPSC and Subsidiaries
Kuwait**

31 December 2022

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Independent auditor's report

To the shareholders of
Sanam Real Estate Company – KPSC
Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sanam Real Estate Company – Kuwaiti Public Shareholding Company (the “Parent Company”) and Subsidiaries, (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 8 to the consolidated financial statements which describes that the valuation carried out for the right of use land, for purpose of the impairment assessment, is based on fact that the Group will renew the right of use land lease contract for a further 30 years upon expiry of the lease contract in 2039. Though the management intends to develop the property and renew the lease upon expiry, the renewal itself depends upon the approval of such renewal request by the relevant authorities. The ultimate outcome of the said renewal cannot be determined presently and consequently no adjustments have been done to the carrying value of the right of use of land. Our Opinion is not modified in respect to this matter.

Other matters

The consolidated financial statements for the year ended 31 December 2021 were audited by another independent auditor who issued a qualified opinion on these consolidated financial statements on 29 March 2022. The basis for the qualified opinion was that the Group did not fair value its unquoted investments classified as at FVTPL which amounted to KD829,797 as of 31 December 2021. However, this has been rectified by management during the current year and the comparatives have been restated (refer note 25).

Key Audit Matters

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

Independent Auditor's Report to the Shareholders of Sanam Real Estate Company - KPSC and Subsidiaries (continued)

Valuation of investment properties

The Group's investment properties represent 62% of the total assets and is accounted for at fair value. The valuation of investment properties is a judgement area requiring number of assumptions including capitalization yields, estimated rental revenue, occupancy rates, historical transactions and market knowledge. The Group's policy is that property valuations are performed at year end by independent valuers, who are non-related to the Group, and they are licensed valuers and have the required qualifications and experiences. Given the fact that the fair values of the investment properties represent a significant judgment area and the valuations are highly dependent on estimates we determined this to be a key audit matter. Refer to Notes 4.12, 14 and 23.3 for more information on investment properties

Our audit procedures included, among others, assessing the appropriateness of the ways and means of evaluation and inputs used in the evaluation. We reviewed the valuation reports from the external valuers and agreed them to the carrying value of the investment properties. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties. Furthermore, we assessed that the property related data used as input for the external valuations is consistent with information obtained during our audit.

Other information included in the Group's 2022 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's Annual Report after the date of our auditor's report.

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

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

If, based on the work we have performed, on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report to the Shareholders of Sanam Real Estate Company - KPSC and Subsidiaries (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

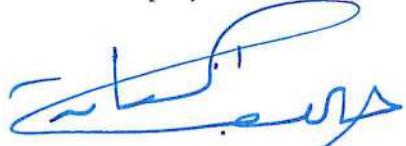
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or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

Independent Auditor's Report to the Shareholders of Sanam Real Estate Company - KPSC and Subsidiaries (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, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.(1) of 2016 and its Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business or financial position of the Parent Company.

We further report, to the best of our knowledge and belief, no violations of provisions of the Law No. 7 of 2010 regarding Capital Markets Authority ("CMA") and its relevant regulations have occurred during the year ended 31 December 2022 that might have had a material effect on the business or financial position of the Parent Company.



Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
22 March 2023

Consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 Dec 2022 KD	(Restated) Year ended 31 Dec 2021 KD
Income			
Rental income		189,858	147,857
Loss from sale of investment properties	9	(116,297)	-
Change in fair value of investment properties	9	5,500	121,950
Dividend from financial assets at fair value through profit or loss		57,734	62,139
Net gain from financial assets at FVTPL		114,824	132,286
Gain from sale of investment in real estate portfolio	10	57,945	47,438
Change in the fair value of a real estate portfolio		-	3,032
Interest and other income		6,988	9,411
		316,552	524,113
Expenses and other charges			
Staff costs		(124,255)	(80,974)
General, administrative and other expenses		(158,903)	(117,590)
Amortization expenses	8	(145,200)	(137,332)
Impairment in value of right of use of land	8	(1,180,222)	-
Depreciation expenses		(2,106)	(771)
Finance costs		(35,454)	(43,618)
		(1,646,140)	(380,285)
(Loss)/profit for the year before contribution to National Labour Support Tax (NLST) and Zakat			
Support Tax (NLST) and Zakat		(1,329,588)	143,828
Provision for NLST		-	(11,072)
Provision for Zakat		-	(4,429)
(Loss)/profit for the year		(1,329,588)	128,327
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(1,329,588)	128,327
Basic and diluted (loss)/earnings per share attributable to shareholders of the Parent Company (Fils)			
	7	(10.96)	1.06

The notes set out on pages 9 to 40 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2022 KD	(Restated) 31 Dec 2021 KD
Assets			
Non-current assets			
Property and equipment		13,924	2,643
Right of use of land	8	1,251,056	2,480,697
Investment properties	9	4,940,000	3,263,448
Investment in real estate portfolio	10	-	1,259,719
Financial assets at fair value through other comprehensive income		66,250	-
		6,271,230	7,006,507
Current assets			
Financial assets at fair value through profit or loss	11	282,829	2,919,429
Accounts receivable and other assets	12	783,027	7,992
Cash and cash equivalents	13	681,647	94,030
		1,747,503	3,021,451
Total Assets		8,018,733	10,027,958
Equity and liabilities			
Equity			
Share capital	14	12,218,500	12,218,500
Share premium	14	184,196	184,196
Treasury shares	15	(184,196)	(184,196)
Treasury shares profit reserve		23,215	23,215
Accumulated losses		(4,406,620)	(3,077,032)
Total equity		7,835,095	9,164,683
Liabilities			
Non-current liabilities			
Provision for end of service indemnity		50,235	42,655
Current liabilities			
Due to bank	17	-	719,958
Accounts payable and other liabilities	18	133,403	100,662
		133,403	820,620
Total Liabilities		183,638	863,275
Total Equity and Liabilities		8,018,733	10,027,958

Waleed Hamad Al-Sumait
 Chairman

Dr. Sulaiman Tareq Al-Abduljader
 Chief Executive Officer

Consolidated statement of changes in equity

	Share capital KD	Share premium KD	Treasury shares KD	Treasury reserve KD	Treasury shares profit KD	Accumulated losses KD	Total KD
Balance at 1 January 2022 (as previously reported)	12,218,500	184,196	(184,196)	23,215	(2,722,204)	9,519,511	
Effect of restatement (Note 25)	-	-	-	-	(354,828)	(354,828)	
Balance at 1 January 2022 (restated)	12,218,500	184,196	(184,196)	23,215	(3,077,032)	9,164,683	
Total comprehensive loss for the year	-	-	-	-	(1,329,588)	(1,329,588)	
Balance at 31 December 2022	12,218,500	184,196	(184,196)	23,215	(4,406,620)	7,835,095	
 Balance at 1 January 2021	 12,218,500	 184,196	 (184,196)	 23,215	 (3,205,359)	 9,036,356	
Total comprehensive income for the year -as restated (note 25)	-	-	-	-	128,327	128,327	
Balance at 31 December 2021 (restated)	12,218,500	184,196	(184,196)	23,215	(3,077,032)	9,164,683	

The notes set out on pages 9 to 40 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec 2022 KD	(Restated) Year ended 31 Dec 2021 KD
OPERATING ACTIVITIES			
(Loss)/ profit for the year		(1,329,588)	128,327
Adjustments:			
Gain from sale of investment in real estate portfolio		(57,945)	(47,438)
Loss from sale of investment properties		116,297	-
Change in fair value of investment properties		(5,500)	(121,950)
Change in the fair value of a real estate portfolio		-	(3,032)
Dividend from financial assets at fair value through profit or loss		(57,734)	(62,139)
Depreciation expenses		2,106	771
Amortization expenses		145,200	137,332
Impairment in value of right of use of land		1,180,222	-
Interest and other income		(6,988)	(9,411)
Finance costs		35,454	43,618
Provision for end of service indemnity		10,182	2,072
		31,706	68,150
Changes in operating assets and liabilities:			
Accounts receivable and other assets		(161,352)	(5,689)
Financial assets at fair value through profit or loss		2,570,068	(137,468)
Accounts payable and other liabilities		32,741	39,762
End of service indemnity paid		(2,602)	-
Net cash from / (used in) operating activities		2,470,561	(35,245)
INVESTING ACTIVITIES			
Financial assets at fair value through other comprehensive income		(66,250)	498,834
Additions on investment in real estate portfolio		-	(1,256,687)
Additions to investment properties		(2,334,500)	-
Net proceeds from sale of investment in real estate portfolio		1,317,664	1,256,687
Additions on right of use of land		(95,781)	-
Purchase of property and equipment		(13,387)	(2,802)
Change in cash at pledged investment portfolios		66,224	468,251
Interest and other income received		6,988	9,411
Dividend received from financial assets at fair value through profit or loss		57,734	62,139
Net cash (used in) / from investing activities		(1,061,308)	1,035,833
FINANCING ACTIVITIES			
Change in due to bank		(719,958)	(952,961)
Proceeds from short term loan		1,700,000	-
Repayment of short-term loan		(1,700,000)	-
Finance costs paid		(35,454)	(43,618)
Net cash used in financing activities		(755,412)	(996,579)
Net increase in cash and cash equivalents		653,841	4,009
Cash and cash equivalents at the beginning of the year		15,933	11,924
Cash and cash equivalents at the end of the year	13	669,774	15,933

The notes set out on pages 9 to 40 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities of the Parent Company

Sanam Real Estate Company – KPSC (“the Parent Company”) was incorporated in 23 February 1982 as a Kuwaiti public shareholding company in accordance with the provisions of the Companies Law in the State of Kuwait.

The Parent Company’s shares was listed on Boursa Kuwait on 28 December 2004.

The Group comprises the Parent Company and Subsidiaries (collectively referred to as “the Group”). The details of the Subsidiaries are described in (Note 6).

The principle activities of the Parent Company are as follows:

- Buying and selling land and real estate properties in favor of the parent company - managing, leasing and renting of real estate properties
- Buying and selling shares, bonds and securities of real estate companies in favor of the company inside the Kuwait and abroad. The company may acquire these entities or join with them.
- Utilizing the financial surpluses of the parent company by investing them in financial portfolios managed by specialized companies and entities.
- Preparing studies and providing consultations in of all kind's real estate fields. Organizing real estate exhibitions for real estate projects in accordance with the applicable regulations of the ministry.
- Direct participation in the infrastructural development of residential, commercial and industrial areas and projects under the "Build, Operation and Transfer (BOT) system and the management of real estate facilities under the BOT system.

The address of the Parent Company’s registered office is Kuwait City - Salhiya Mall – Floor 5 - Kuwait.

These consolidated financial statements for the year ended 31 December 2022 were authorised for issue by the Parent Company’s board of directors on 22 March 2023. The general assembly of the Parent Company’s shareholders has the power to amend these consolidated financial statements after issuance.

2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

3 Changes in accounting policies

3.1 New and amended standards adopted by the Group

The following new amendments or standards were effective for the current period.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 3 Amendment – Reference to the conceptual framework	1 January 2022
IAS 16 – Amendments – Proceeds before intended use	1 January 2022
IAS 37 – Amendments – Onerous contracts -Cost of fulfilling a contract	1 January 2022
Annual Improvements 2018-2020 Cycle	1 January 2022

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Group (continued)

IFRS 3 – Reference to the conceptual framework

The amendments add a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

IAS 16 Amendments - Proceeds before intended use

The amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

The adoption of the amendment did not have a significant impact on the Group's consolidated financial statements.

IAS 37 Amendments – Onerous contracts- Cost of fulfilling a contract

The amendments specify which costs an entity includes when assessing whether a contract will be loss-making.

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments are only to be applied to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual period in which it first applies the amendments.

The adoption of the amendment did not have a significant impact on the Group's consolidated financial statements.

Annual Improvements 2018-2020 Cycle

Amendment to IAS 1 simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. Subsidiary that is a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. However, the amendment extends the exemption to cumulative translation differences to reduce costs for first-time adopters.

Amendment to IFRS 9 relates to the '10 per cent' Test for Derecognition of Financial Liabilities – In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IFRS 16 avoids the potential for confusion in applying IFRS 16 Leases because of how Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16. The IASB decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Group (continued)

Annual Improvements 2018-2020 Cycle (continued)

Amendment to IAS 41 removes the requirement in IAS 41.22 to exclude taxation cash flows when measuring fair value. This amendment aligns the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements.

3.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant and/or have a material impact on the Group's consolidated financial statements.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 1 Amendments- Disclosure of accounting policies	1 January 2023
IAS 1 Amendments- Classification of liabilities with debt covenants	1 January 2024
IAS 1 Amendments- Classification of current and non-current	1 January 2024
IAS 8 Amendments- Definition of accounting estimates	1 January 2023
IFRS 16 Amendments- Leases	1 January 2024

IAS 1 Amendments – Disclosure of accounting policies

The amendments to IAS 1 require entities to disclose material accounting policies instead of significant accounting policies. The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 1 Amendments - Classification of liabilities with debt covenants

The amendments to IAS 1 clarify that classification of liabilities depends only on the covenants that an entity is required to comply with on or before the reporting date of the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IAS 1 Amendments - Classification of current or non-current

The amendments to IAS 1 clarify the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. Stating management expectations around whether they will defer settlement or not does not impact the classification of the liability. It has added guidance about lending conditions and how these can impact classification and has included requirements for liabilities that can be settled using an entity's own instruments.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 8 Amendments – Definition of accounting estimates

The amendments to IAS 8 inserted the definition of accounting estimates replacing the definition of a change in accounting estimates. Accounting estimates are now defined as monetary amounts in financial statements that are subject to measurement uncertainty.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 16 Amendments – Leases

The amendments to IFRS 16 requires a seller-lessee to measure the right-of-use asset arising from a sale and leaseback transaction at the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains. Accordingly, in a sale and leaseback transaction the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The initial measurement of the lease liability that arise from a sale and leaseback transaction is a consequence of how the seller-lessee measures the right-of-use asset and the gain or loss recognised at the date of the transaction. The new requirements do not prevent a seller-lessee from recognising in any gain or loss relating to the partial or full termination of a lease.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

4 Significant accounting policies

The significant accounting policies and measurement bases adopted in the preparation of the consolidated financial statements are summarised below:

4.1 Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and investment in real estate portfolio that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company.

The Group has elected to present the "consolidated statement of profit or loss and other comprehensive income" in one statement.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.2 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 31 December.

The details of the consolidated subsidiaries are set out in Note (6) to the consolidated financial statements.

All intra-group transactions and balances are eliminated on consolidation, including unrealised gains and losses on intra-group transactions. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4.3 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.3 Business combinations (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of i) fair value of consideration transferred, ii) the recognised amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in consolidated statement of profit or loss immediately.

4.4 Revenue recognition

The Group recognises revenue from the following major sources:

- Rental income
- Interest and similar income
- Dividends income

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

The Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

The Group often enters into transactions involving a range of the Group's products and services.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.4 Revenue recognition (continued)

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts, if any, as other liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable, if any, in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4.4.1 *Rental income*

Rental income from investment properties is recognised as stated in note 4.8.

4.4.2 *Interest and similar income*

Interest and similar income and expenses are reported on an accrual basis using the effective interest rate method.

4.4.3 *Dividend income*

Dividend income are recognised at the time the right to receive payment is established.

4.5 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

4.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

4.7 Taxation

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

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

4.7.2 *National Labour Supporting tax*

The National Labour Support Tax (NLST) is calculated at 2.5% of the profit for the year attributable to the owners of the Parent Company in accordance with the Ministry of Finance resolution No. 24 for the year 2006 and Law No. 19 for the year 2000.

4.7.3 *Zakat*

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

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.8 Leased assets

The Group as a lessee

For any new contracts entered into, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

Right-of-use asset

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group depreciates the right-of-use assets (which are not classified as investment properties) on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Subsequent to initial measurement, the Group accounts for certain of its right-of-use assets as investment properties carried at fair value. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property. Any gain or loss resulting from either a change in the fair value is immediately recognised in the consolidated statement of profit or loss.

Lease liability

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.8 Leased assets (continued)

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group as a lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group classifies its leases as either operating or finance leases. When the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and sub-lease as two separate contacts. The sub-lease is classified as finance lease or operating lease by reference to the right-of-use of asset arising from the head-lease.

Rental income from operating leases is recognised on a straight-line basis over lease term. Initial direct cost incurred in arranging and negotiating a lease are added to the carrying amount of the lease assets and recognised on a straight-line basis over the lease term.

Amounts due under finance leases are recognised as receivables. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding for the finance lease.

4.9 Property and equipment

Property and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Property and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses, if any. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of properties and equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When asset is sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

4.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property or are determined by the management of the Group based on their knowledge of the property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within "change in fair value of investment property".

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.10 Investment properties (continued)

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

4.11 Investment in real estate portfolio

Investment in real estate portfolio represents the Group's participation in real estate investments with other parties under a portfolio managed by specialised companies. Investment in real estate portfolio is initially recognized at cost of contribution. Subsequent to initial recognition, investment in real estate portfolio is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of profit or loss in the period in which they arise. Fair values are estimated by using portfolio positions obtained by the portfolio manager.

4.12 Trading properties

Trading properties are stated at the lower of cost or net realizable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance cost. Net realizable value is based on estimated selling price less any further cost expected to be incurred on completion and disposal.

4.13 Impairment testing of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.14 Financial instruments

4.14.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by directly attributable transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.14 Financial instruments (continued)

4.14.1 Recognition, initial measurement and derecognition (continued)

A financial asset (or, where applicable a part of financial asset or part of Group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- 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 risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all 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 the Group’s 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.

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 consolidated statement of profit or loss.

4.14.2 Classification of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- financial assets at amortised cost
- financial assets at fair value through Other Comprehensive Income (FVTOCI)
- financial assets at fair value through profit or loss (FVTPL)

The classification is determined by both:

- the entity’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the period presented no such designation has been made.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.14 Financial instruments (continued)

4.14.3 Subsequent measurement of financial assets

- ***Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Group's financial assets at amortised cost comprise of the following:

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash in portfolios, term deposits and bank balances which are subject to insignificant risk of changes in value.

- *Accounts receivable and other assets*

Accounts receivable and other assets are stated at original amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- ***Financial assets at FVTOCI***

The Group's financial assets at FVTOCI comprise equity investments and debt instruments. The equity investments represent investments in shares of various companies and include both quoted and unquoted.

The Group accounts for financial assets at FVTOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the consolidated statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

Equity investments at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.14 Financial instruments

4.14.3 Subsequent measurement of financial assets (continued)

Equity investments at FVTOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

- *Financial assets at FVTPL*

Financial assets that do not meet the criteria for measurement at amortised cost or FVTOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains investments in equity shares.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group's financial assets at FVTPL comprise investments in equity instruments.

4.14.4 Impairment of financial assets

All financial assets except for those at FVTPL and equity investments at FVTOCI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVOCL.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.14 Financial instruments (continued)

4.14.4 Impairment of financial assets (continued)

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

4.14.5 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, accounts payable and other liabilities, due to related parties and due to banks.

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

- **Financial liabilities at amortised cost**

These are stated using effective interest rate method. Due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable are classified as financial liabilities other than at FVTPL.

- *Due to banks*

Due to bank are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- *Accounts payable and other liabilities*

Accounts payable and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

4.15 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.16 Trade and settlement date accounting

All ‘regular way’ purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4.17 Offsetting of financial instruments

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

4.18 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.2.

4.19 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies’ law and the Parent Company’s articles of incorporation.

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group’s foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings/accumulated losses includes all current and prior period retained profits/losses. All transactions with owners of the Parent Company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

4.20 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.20 Provisions, contingent assets and contingent liabilities (continued)

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

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

4.21 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. Treasury shares are accounted for under cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. Treasury shares are not entitled to cash dividends that the Group may distribute. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

4.22 Segment reporting

When the treasury shares are reissued, gains are recorded directly in "Treasury shares reserve" in the shareholders' equity. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and legal reserve. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves and retained earnings equal to the loss previously charged to this account.

The Group has two operating segments: the real estate and investment segments. In identifying these operating segments, management generally follows the Group's significant services for each segments. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

4.23 Foreign currency translation

4.23.1 Functional and presentation currency

The consolidated financial statements are presented in Kuwait Dinar (KD), which is also the functional currency of the Parent Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

4.23.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.24 End of service indemnity

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

Notes to the consolidated financial statements (continued)

4 Significant accounting policies (continued)

4.24 End of service indemnity (continued)

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

5 Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

5.1 Significant management judgments

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

5.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.14). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.1.2 Revenue recognition

Revenue is measured based on the consideration which the Group expects to be entitled in a contract and is recognised when it transfers control of a product or service to a customer. The determination of whether the revenue recognition criteria as specified under IFRS 15 and in the revenue recognition accounting policy explained in Note 4.4 are met requires significant judgement.

5.1.3 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property under development or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the consolidated statement of profit or loss.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. And if such properties are under development with an intention of being sold in future they are classified under trading properties under development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. And if such properties are under development they are classified under investment properties under development.

5.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

Notes to the consolidated financial statements (continued)

5 Significant management judgements and estimation uncertainty (continued)

5.2 Estimates uncertainty (continued)

5.2.1 *Impairment of financial assets*

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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

5.2.2 *Useful lives of depreciable assets*

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

5.2.3 *Business combinations*

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

5.2.4 *Fair value of financial instruments*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5.2.5 *Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. The Group engaged independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5.2.6 *Revaluation of investment in portfolio position*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. The fair value is determined by the portfolio manager with the help of independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5.2.7 *Impairment of right of use of land*

The Group reviews the carrying amounts of its right of use of land to determine whether there is any indication that those assets have suffered an impairment loss or indication that an impairment loss previously recognised may no longer exist in accordance with accounting policies stated in note 4.8 & note 4.15. The recoverable amount of an asset is determined bases on higher of fair value and value in use.

Notes to the consolidated financial statements (continued)

6 Investment in subsidiaries

The details of the subsidiaries are as follows:

<u>Name of Subsidiaries</u>	Country of incorporation	Percentage of ownership		Principle activity
		31 Dec. 2022	31 Dec. 2021	
Fanan Real Estate Company – KSC (Closed)	Kuwait	99.67%	99.67%	Real estate
Sanam Innovation Holding -WLL (Holding) (*)	Kuwait	99.60%	-	Real estate and investment

(*) Sanam Innovation Holding -WLL (Holding) was incorporated during the current year by the Parent Company with a share capital of KD250,000. The Parent Company owns directly 99.6% and remaining 0.4% is held in the name of Fanan Real Estate Company -KSCC (subsidiary of the Group).

The subsidiaries are consolidated based on the management accounts for the year ended 31 December 2022.

7 Basic and diluted (loss)/earnings per share attributable to the shareholders of the Parent Company

Basic and diluted (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to shareholders of the Parent Company by weighted average number of shares outstanding during the year excluding treasury shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 Dec. 2022	(Restated) Year ended 31 Dec 2021
(Loss)/profit for the year attributable to shareholders of the Parent Company (KD)	(1,329,588)	128,327
Weighted average number of shares outstanding during the year (excluding treasury shares) (share)	121,312,400	121,312,400
Basic and diluted (loss)/earnings per share attributable to shareholders of the Parent Company (Fils)	(10.96)	1.06

8 Right of use of land

	31 Dec. 2022	31 Dec. 2021
Cost		
At beginning of the year	4,252,652	4,251,521
Additions during the year	95,781	1,131
Impairment in value during the year	(1,180,222)	-
At end of the year	3,168,211	4,252,652
Accumulated amortisation		
At beginning of the year	(1,771,955)	(1,634,623)
Amortisation for the year	(145,200)	(137,332)
At end of the year	(1,917,155)	(1,771,955)
Net book value	1,251,056	2,480,697

Notes to the consolidated financial statements (continued)

8 Right of use of land (continued)

On 10 May 2005, one of the subsidiary's of the Group signed an agreement with the owner of the concession to lease part of a land in Al Jaddaf, Dubai (on a Build-Operate-Transfer (BOT) basis), owned by the Dubai Municipality – Department of Dubai Train. The lease period is 30 years commencing on 9 September 2009. The Group paid an amount of AED105,000,000 (equivalent to KD8,319,004) in full in previous years for the lease.

The cost of this lease is being amortized over the lease period which ends on 8 September 2039.

The land was evaluated by an authorized independent valuer in the United Arab Emirates and the value amounted to AED15,000,000 (equivalent to KD1,251,056) as at 31 December 2022, and this value was determined by the valuer on the assumption that the BOT period will be renewed for an equal term of 30 years on its expiry (which is after 17 years on 8 September 2039). In order to arrive at the market value of the property, the valuer has adopted the residual approach, which involves the calculation of the Gross Development value (GDV) of the proposed development (construction of Hotel apartment buildings) assuming it is complete and discounting the GDV at an appropriate discount rate for the period of construction. The construction costs of the proposed development are assumed and deducted from the GDV to arrive at a residual value of land. When calculating the GDV due from holding the completed development (during the BOT and renewal period) less the development costs, several key assumptions have been made by the valuer which includes, among others, the renewal of the BOT agreement for another 30 years at expiry (at the original cost of AED 105,000,000), total built floor area for the proposed Hotel apartment (448,939 Square feet), expected cashflows from the proposed development, cost of construction per square feet (AED 275), construction period (2 years), discount rate (9%), and developers profit rate (5% of GDV). The valuer has used the residual approach due to lack of comparable evidence and transactions for the land. Based on the valuation carried out by the independent valuer, an amount of KD1,180,222 was recognized in the consolidated statement of profit or loss and other comprehensive income as impairment in value of right of use of land.

The Group intends to develop the above land according the concession agreement and intends to renew the right of use land agreement on its expiry for another 30 years, as such renewal is in line with industry practice.

A reconciliation between the original lease and the net book value is as follows:

	31 Dec. 2022 KD	31 Dec. 2021 KD
Original lease paid	8,319,004	8,319,004
Development costs capitalised	671,133	575,352
Accumulated impairment	(5,821,926)	(4,641,704)
Accumulated amortisation	(1,917,155)	(1,771,955)
Net book value	1,251,056	2,480,697

9 Investment properties

	31 Dec. 2022 KD	31 Dec. 2021 KD
Balance at beginning of the year	3,263,448	3,141,498
Additions during the year	2,334,500	-
Disposal during the year	(663,448)	-
Change in fair value during the year	5,500	121,950
	4,940,000	3,263,448

Notes to the consolidated financial statements (continued)

9 Investment properties (continued)

The fair value of investment properties at 31 December 2022 and 31 December 2021 was determined based on valuations obtained from two independent valuers.

During the current year, the Group purchased an investment property located in Al Farwaniyah area in the State of Kuwait for a consideration of KD2,334,500.

During the current year, the Group disposed a residential villa located in the Jumeirah area in the United Arab Emirates with a carrying value of KD663,448 for a consideration of AED 6,562,300 equivalent to KD547,151 resulting in a loss of KD116,297. The consideration was received subsequent to the balance sheet date in January 2023 and is shown under accounts receivable and other assets at 31 December 2022 (refer note 12).

Note 23.3 sets out the measurement basis of fair value of the investment properties.

10 Investment in real estate portfolio

	31 Dec. 2022 KD	31 Dec. 2021 KD
Balance at the beginning of the year	1,259,719	1,209,249
Additions during the year	-	1,256,687
Disposal during the year	(1,259,719)	(1,209,249)
Change in fair value	-	3,032
Balance at the end of the year	-	1,259,719

The balance at 31 December 2021 represents the value of a land in the Kingdom of Saudi Arabia - Riyadh City - Sheikh Jaber Street. During the current year, the Group sold its total investment in the real estate portfolio for a total consideration of SAR16,343,227 equivalent to KD1,317,664 and this resulted in a gain of KD57,945 being recognized in the consolidated statement of profit or loss and other comprehensive income for the current year.

11 Financial assets at fair value through profit or loss

	31 Dec. 2022 KD	(Restated) 31 Dec. 2021 KD
Managed portfolios		
- Quoted shares	-	2,444,502
- Unquoted shares	257,412	450,214
Quoted securities	10,884	10,180
Unquoted securities	14,533	14,533
	282,829	2,919,429

Managed portfolios with a carrying value of KD 257,412 (31 December 2021: KD2,894,716) are managed by a related party.

The hierarchy for determining and disclosing the fair values of financial instruments is presented in Note 23.2.

Notes to the consolidated financial statements (continued)

12 Accounts receivable and other assets

	31 Dec. 2022 KD	31 Dec. 2021 KD
Financial assets:		
Amount due on sale of investment property (refer note 9)	571,872	-
Tenants receivable	92,766	-
Amount due on sale of IFVTPL	66,532	-
Staff receivables	490	890
	731,660	890
Non-financial assets		
Advance payment to purchase properties (*)	813,310	813,310
Advance payment to suppliers	46,462	-
Prepaid expenses	4,905	7,102
	864,677	820,412
Less: Provision for impairment of advance payments (*)	(813,310)	(813,310)
	51,367	7,102
	783,027	7,992

*During 2005 and 2006, the Group paid amounts to an individual to purchase a land in Dubai, UAE. However, during 2014, the Group signed an agreement with a real estate developer to replace the land with 9 units under development in Dubai – United Arab Emirates. However, the ownership of these units were not transferred in the name of the Group. Due to the delay in transferring the ownership of the units into the Group's name, management of the Group recognised a provision of KD513,310 against the advance payment in previous years.

On 15 December 2019, the real estate developer communicated in writing to the Group's management informing that they do not have in their records any proof of the Group's ownership to those units, and, accordingly the Board of Directors of the Parent Company decided in their meeting held on 22 December 2020 to fully provide for the remaining balance. The Group is currently consulting with its legal advisors to file a legal case to recover this amount.

13 Cash and cash equivalents

	31 Dec. 2022 KD	31 Dec. 2021 KD
Cash and bank balances	669,712	15,933
Cash in portfolios	11,935	78,097
Cash and cash equivalents for the purpose of the consolidated statement of financial position		
Less: Cash at pledged investment portfolios (see below)	(11,873)	(78,097)
Cash and cash equivalents for the purpose of the consolidated statement of cash flows		
	669,774	15,933

Cash in portfolios include an amount KD62 (31 December 2021: KD78,097) managed by a related party.

Notes to the consolidated financial statements (continued)

14 Share capital and share premium

The authorized, issued and fully paid up share capital of the Parent Company comprised of 122,185,000 shares of 100 fils each (122,185,000 shares as at 31 December 2021).

The share premium is non-distributable.

15 Treasury shares

	31 Dec. 2022	31 Dec. 2021
Number of treasury shares	872,600	872,600
Percentage of issued shares	0.71%	0.71%
Market value (KD)	52,443	68,848
Cost (KD)	184,196	184,196

Reserves of the Parent Company equivalent to the cost of the treasury shares held are not available for distribution.

16 Reserves

In accordance with the Companies Law and the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) is required to be transferred to legal reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid-up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

In accordance with the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) should be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

No transfer is required in a year in which the Parent Company has incurred a loss or where accumulated losses exist.

17 Due to bank

Due to bank represents an overdraft facility of KD1,000,000 (31 December 2021: KD1,750,000) obtained from a local bank that matures on 15 January 2023 and carry an annual interest rate of 2.5% (31 December 2021: 2.5%) over CBK discount rate and is secured by pledge of the Group's portfolio managed by a related party. The Group had not utilised any amounts of the overdraft facility as of 30 June 2022 and during the current year the Group cancelled the overdraft facility contract with the local bank.

Notes to the consolidated financial statements (continued)

18 Accounts payable and other liabilities

	31 Dec. 2022 KD	31 Dec. 2021 KD
Trade creditor	54,270	53,521
NLST	-	11,072
Zakat	-	4,429
Accrued expenses	70,300	23,890
Provision for staff leave	8,833	7,750
	133,403	100,662

19 Related parties transactions and balances

Related parties represent associates, directors and key management personnel of the Group, major shareholders and companies in which directors and key management personnel of the Parent Company are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Details of significant related party transactions and balances are as follows:

	31 Dec. 2022 KD	(Restated) 31 Dec. 2021 KD
Amounts included in the consolidated statement of financial position:		
Financial assets at fair value through profit or loss	257,412	2,894,716
Accounts receivable and other assets	89,166	-
Cash and cash equivalents	62	78,097

	Year ended 31 Dec. 2022 KD	Year ended 31 Dec. 2021 KD
Transactions included in the consolidated statement of profit or loss:		
Portfolio management fees – included within general, administrative and other expenses	17,138	25,421
Real estate management fees – included within general, administrative and other expenses	3,234	-
Compensation of key management personnel:		
Salaries and short-term benefits	50,205	61,713
Remuneration for members of the committees	18,150	8,700
End of service benefits	3,144	2,072

The Group's investments at fair value through profit or loss with a carrying value of KD257,412 (31 December 2021: KD2,894,716) (refer note 11) and cash and cash equivalents include an amount KD62 (31 December 2021: KD78,097) (refer note 13) are managed/held by a related party. Further the Group's real estate with a carrying value of KD4,940,000 are managed by a related party.

Notes to the consolidated financial statements (continued)

20 Dividend distribution and annual General Assembly

The Board of Directors proposed not to distribute any dividend for the year ended 31 December 2022. This proposal is subject to the approval of the general assembly of the shareholders.

The annual general assembly of the Parent Company's shareholders held on 28 April 2022 approved the consolidated financial statements for the year ended 31 December 2021. Furthermore, it approved the board of directors' proposal not to distribute any cash dividends for the year ended 31 December 2021 and not to pay any remuneration to the board of directors for the year ended 31 December 2021.

The annual general assembly of the Parent Company's shareholders held on 20 April 2021 approved the consolidated financial statements for the financial year ended 31 December 2020. Furthermore, it approved the board of directors' proposal not to distribute any cash dividends for the year ended 31 December 2020 and not to pay any remuneration to the board of directors for the year ended 31 December 2020.

21 Segmental analysis

The Group operates its activities in real estate and investment segments. The segmental analysis of total income and (loss)/profit for the segments are as follows:

	Investments KD	Real estate KD	Unallocated KD	Total KD
Year ended 31 December 2022:				
Income	179,546	175,164	-	354,710
Profit/(loss) for the year	162,408	(1,215,592)	(276,404)	(1,329,588)
As of 31 December 2022:				
Total assets	1,097,258	6,855,694	65,781	8,018,733
Total liabilities	-	-	183,638	183,638
Net assets	1,097,258	6,855,694	(117,857)	7,835,095
Year ended 31 December 2021 (restated):				
Income	203,836	320,277	-	524,113
Profit/(loss) for the year	178,415	160,291	(210,379)	128,327
As of 31 December 2021 (restated):				
Total assets	3,013,459	7,003,864	10,635	10,027,958
Total liabilities	-	719,958	143,317	863,275
Net assets	3,013,459	6,283,906	(132,682)	9,164,683

22 Risk management objectives and policies

The Group's activities expose it to variety of financial risks: e.g. market risk, credit risk and liquidity risk.

The board of director's policies for reducing each of the risks are discussed below.

The Group does not use derivative financial instruments based on future speculations.

The most significant financial risks to which the Group is exposed to are described below.

Notes to the consolidated financial statements (continued)

22 Risk management objectives and policies (continued)

22.1 Market risk

(a) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. As at the reporting date the Group does not have any significant exposure to foreign currency denominated monetary assets or monetary liabilities and therefore, the Group is not exposed to any significant foreign currency risks.

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. the Group is not significantly exposed to interest rate risks.

(c) Price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its price issuer or factors affecting all instruments, traded in the market. The Group is not exposed to any significant price risks as of 31 December 2022 as majority of the Group's investments are unquoted.

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy regarding exposure to credit risk requires monitoring these risks on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of clients in specific locations or businesses through diversification of its activities. It also obtains security when appropriate.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the consolidated financial position date, as summarized below:

	31 Dec. 2022 KD	31 Dec. 2021 KD	(Restated)
Financial assets at fair value through other comprehensive income	66,250	-	
Financial assets at fair value through profit or loss	282,829	2,919,429	
Accounts receivable and other assets (note 12)	731,660	890	
Cash and cash equivalents	681,647	94,030	
	1,762,386	3,014,349	

The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

The credit risk for bank balances is considered negligible, since the counterparties are financial institution with high credit quality.

22.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, the Group's management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

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

Notes to the consolidated financial statements (continued)

22 Risk management objectives and policies (continued)

22.3 Liquidity risk (continued)

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 is as follows:

	1 - 3 months KD	3 - 12 months KD	Total KD
31 December 2022			
Liabilities			
Accounts payable and other liabilities	70,303	63,100	133,403
	70,303	63,100	133,403
31 December 2021			
Liabilities			
Due to bank	-	719,958	719,958
Accounts payable and other liabilities	47,142	53,520	100,662
	47,142	773,478	820,620

22.4 Geographical Concentration

The Groups financial assets are primarily located in Kuwait.

23 Fair value measurement

23.1 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments

The carrying amounts of the Group's financial assets and liabilities as stated in the interim condensed consolidated statement of financial position may be categorized as follows:

	31 Dec. 2022 KD	31 Dec. 2021 KD	(Restated)
Financial assets:			
At amortised cost:			
Cash and cash equivalents	681,647	94,030	
Accounts receivable and other assets (excluding prepaid expenses and advance payment)	731,660	890	
At fair value:			
Financial assets at fair value through profit or loss	282,829	2,919,429	
Financial assets at fair value through other comprehensive income	66,250	-	
	1,762,386	3,014,349	
Financial liabilities:			
At amortised cost:			
Due to bank	-	719,958	
Accounts payable and other liabilities	133,403	100,662	
	133,403	820,620	

Management considers that the carrying amounts of financial assets and liabilities, which are stated at amortized cost, approximate their fair values.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the interim condensed consolidated statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2022	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2022				
<i>Financial assets at fair value through profit or loss:</i>				
Foreign quoted securities	a	10,884	-	10,884
Local unquoted securities	b	-	14,533	14,533
Managed portfolios	c	-	257,412	257,412
		10,884	-	271,945
				282,829
31 December 2021 (Restated)				
<i>Financial assets at fair value through profit or loss:</i>				
Foreign quoted securities	a	10,180	-	10,180
Local unquoted securities	b	-	14,533	14,533
Managed portfolios	c	2,444,502	450,214	2,894,716
		2,454,682	-	464,747
				2,919,429

There have been no transfers between levels 1 and 3 during the reporting period.

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

Measurement at fair value

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The methods and valuation techniques used for the purpose of measuring fair value are as follows:

Financial instruments in level 1

a) Foreign & local quoted securities

All quoted equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Unquoted equity participations (Level 3)

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using discounted cash flow model or observable market prices or other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

c) Local and international managed portfolios (level 1 & 3)

The underlying investments of local & international managed portfolios represent quoted and unquoted securities. Quoted securities are valued as noted in a) above. Unquoted investments are valued based on fund managers' report and adjusted for illiquidity where required or where information is available fair value is estimated by an appropriate valuation technique which includes some assumptions that are not supportable by observable market prices or rates.

Level 3 fair value measurements

The Group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2022 KD	31 Dec. 2021 KD	(Restated)
Opening balance	464,747	819,575	
Disposals	(31,642)	-	
Change in fair value recognised in profit or loss	(161,160)	(354,828)	
Closing balance	<u>271,945</u>	<u>464,747</u>	

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements (continued)

The following table provides information about the sensitivity of the fair values measurement to changes in the most significant unobservable inputs:

31 December 2022

Financial asset	Valuation technique	Significant unobservable input	Range	Sensitivity of the fair value measurement to the input
Unquoted Equity participations	Market multiples	Discount for lack of marketability	40 %	Higher the discount rate, lower the value

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in the consolidated statement of profit or loss, total assets or total liabilities or total equity.

23.3 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2022 and 31 December 2021:

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2022				
Investment properties:				
Building in Kuwait				
- Bneid Al Gar	-	-	2,700,000	2,700,000
- Farwaniya	-	-	2,240,000	2,240,000
	-	-	4,940,000	4,940,000
31 December 2021				
Investment properties:				
Building in Kuwait (Bneid Al Gar)	-	-	2,600,000	2,600,000
Property in UAE	-	663,448	-	663,448
	-	663,448	2,600,000	3,263,448

Buildings in Kuwait

The fair value of the investment properties has been determined, based on the lower of two valuations obtained from independent valuers (one of the valuers for the local properties is a bank located in Kuwait), who are specialized in valuing this type of investment properties. The valuers have valued the investment properties primarily using two methods, one of which is the yield method and the other being a combination of the market comparison approach for the land and cost minus depreciation approach for buildings. When the market comparison approach is used, adjustments have been incorporated for factors specific to the properties in question, including property size, location, economic condition, similar property prices in surrounding area and permitted activities on the property.

Notes to the consolidated financial statements (continued)

23 Fair value measurement (continued)

23.3 Fair value measurement of non-financial assets (continued)

Property in UAE

The property in UAE represents a residential Villa. The fair value provided by an independent valuer using a market approach that reflects observed prices for recent market transactions for similar properties without any significant adjustments being made to the market observable data.

Further information regarding the level 3 fair value measurements is set out in the table below:

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Building on freehold land in Kuwait	Estimated rental stream approach	Monthly economic rental value	KD14,050 - KD17,350 (2021: KD17,250)	Fair value increases if economic rental value increases, and vice versa.

Level 3 Fair value measurements

The Group measurement of investment properties classified in level 3 uses valuation techniques inputs that are not based on observable market data. The investment properties within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2022 KD	31 Dec. 2021 KD
Opening balance	2,600,000	2,580,000
Additions	2,334,500	-
Gain or losses recognised in consolidated statement of profit or loss on: - Changes in fair value	5,500	20,000
Closing balance	4,940,000	2,600,000

24 Capital risk management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and other variables including risks related to the Group assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of the following:

	31 Dec. 2022 KD	31 Dec. 2021 KD
Due to bank	-	719,958
Less: Cash and cash equivalents (note 15)	(681,647)	(94,030)
Net debt	(681,647)	625,928
Equity	7,835,095	9,164,683
Net debt to equity ratio	-	7%

Notes to the consolidated financial statements (continued)

25 Effect of restatement

The Group did not fair value its unquoted investments classified as at FVTPL which amounted to KD829,797 as of 31 December 2021. However, during the current year the latest available financial information relating to these unquoted investments have been obtained and accordingly the Parent Company's management, using valuation techniques, estimated the fair value of these investments as of 31 December 2021, which has resulted in a change in fair value loss of KD 354,828. Consequently, the Group restated the previous year's financial statements by restating the carrying value of the financial assets at fair value through profit or loss and the accumulated losses as at 31 December 2021 in accordance with IAS 8: Accounting policies, changes in accounting estimates and errors in the financial statements, to rectify the error. The restatement has impacted the comparative consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 31 December 2021. The impact of the restatement to the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income for the previous year is shown below:

	As previously reported as at 31 Dec. 2021 KD	Effect of restatement KD	Restated balance as at 31 Dec. 2021 KD
Consolidated statement of financial position			
Assets			
Financial assets at fair value through profit or loss	3,274,257	(354,828)	2,919,429
Equity			
Accumulated losses	(2,722,204)	(354,828)	(3,077,032)
	As previously reported for the year ended 31 Dec. 2021 KD	Effect of restatement KD	Restated balance for the year ended 31 Dec. 2021 KD
Consolidated statement of profit or loss and other comprehensive income			
Net gain from financial assets at FVTPL	487,114	(354,828)	132,286
Profit for the year	483,155	(354,828)	128,327
Basic and diluted earnings per share attributable to shareholders of the Parent Company (Fils)	3.98	(2.92)	1.06

26 Covid-19 Pandemic Impact

The outbreak of Coronavirus ("COVID-19") pandemic and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global and local equity markets have experienced significant volatility and weakness. During the year 2020 and 2021 governments and central banks have reacted with various financial packages and reliefs designed to stabilize economic conditions.

The Group's operating environment has moderately rebound and the Group is gradually recovering from the effects of COVID-19 pandemic. Management of the Group is actively monitoring any future effects COVID-19 may have on its business operations, however high vaccination rates and other measures taken by the government significantly reduces the impact of latest variants of the virus.

27 Comparative figures

Other than as disclosed in note 25, certain other comparative figures have been reclassified to conform with the current year's presentation of the consolidated financial statement. This reclassification has no effect on the consolidated financial statements for the previous year including equity, net profit and cash and cash equivalents.

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