

**DAR AL-THURAYA REAL ESTATE COMPANY
K.S.C.P. AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2022**



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DAR AL-THURAYA REAL ESTATE COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Dar Al-Thuraya Real Estate Company K.S.C.P. (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 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 ("ISA"). Our responsibilities under those standards are further described in the *Auditors' 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 8 in the consolidated financial statements which states that the Group is the ultimate beneficiary of certain investment properties with a carrying value of KD 1,603,000 (2021: KD 1,700,000) registered in the name of a related party on behalf of the Group. Our opinion is not modified in respect of this matter.

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 period. 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. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF
DAR AL-THURAYA REAL ESTATE COMPANY K.S.C.P. (continued)**

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

<i>Fair value measurement of investment properties</i>	
Key audit matter	How the key audit matter was addressed in the audit
<p>The fair values of the Group’s investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. The methodology applied in determining the valuations is set out in Note 8 to the consolidated financial statements.</p> <p>Given the size and the estimation involved in the valuation of investment property and the importance of the disclosures relating to the assumptions used in the valuation, we have considered this as a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▶ We have considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties. ▶ We have tested the inputs and assumptions made by management of the Group and the appropriateness of the properties’ related data supporting the external appraisers’ valuations. ▶ We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and challenging the valuations on a sample basis based on evidence of comparable market transactions and other publicly available information of the property industry. ▶ We evaluated the management’s sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the fair value of investment properties. ▶ Further, we have considered the objectivity, independence and expertise of the external real estate appraisers. ▶ We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 8 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DAR AL-THURAYA REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this 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.

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DAR AL-THURAYA REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DAR AL-THURAYA REAL ESTATE COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No.7 of 2010, concerning the Capital Markets Authority, and its related regulations, during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position.



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

30 March 2023
Kuwait

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 KD	2021 KD
INCOME			
Revenue from contracts with customers		30,324	262,679
Cost of sales		(12,206)	(108,235)
GROSS PROFIT		18,118	154,444
Net real estate income	3	575,034	793,083
Net gain from investment securities	4	4,955	82,901
Reversal of expected credit losses	7	2,565	37,964
Other income		180	4,581
		600,852	1,072,973
EXPENSES			
Administrative expenses		(142,354)	(139,003)
Finance costs	12	(41,562)	(24,463)
		(183,916)	(163,466)
PROFIT BEFORE TAX		416,936	909,507
Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS")		(3,752)	(4,581)
National Labour Support Tax ("NLST")		(10,478)	(21,848)
Zakat		-	(905)
PROFIT FOR THE YEAR		402,706	882,173
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		402,706	882,173
BASIC AND DILUTED EARNINGS PER SHARE	5	2.75 Fils	6.02 Fils

The attached notes 1 to 17 form part of these consolidated financial statements.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
ASSETS			
Non-current asset			
Investment properties	8	<u>19,914,000</u>	<u>12,450,000</u>
Current assets			
Trade and other receivables	7	39,031	6,490,217
Financial assets at fair value through profit or loss	6	891,594	531,438
Bank balances		<u>121,111</u>	<u>666,834</u>
TOTAL ASSETS		<u><u>20,965,736</u></u>	<u><u>20,138,489</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	9	14,650,000	14,650,000
Statutory reserve	9	959,442	917,748
Voluntary reserve	9	866,845	866,845
Retained earnings		<u>791,806</u>	<u>430,794</u>
Total equity		<u><u>17,268,093</u></u>	<u><u>16,865,387</u></u>
Liabilities			
Non-current liability			
Employees' end of service benefits	10	<u>24,332</u>	<u>19,595</u>
Current liability			
Other liabilities	11	<u>3,673,311</u>	<u>3,253,507</u>
Total liabilities		<u><u>3,697,643</u></u>	<u><u>3,273,102</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>20,965,736</u></u>	<u><u>20,138,489</u></u>

Ahmad Abdulrazaq Al-Bahar
Chairman

The attached notes 1 to 17 form part of these consolidated financial statements.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	<i>Attributable to equity holders of the Parent Company</i>				<i>Sub-total KD</i>	<i>Non-controlling interests KD</i>	<i>Total equity KD</i>
	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Voluntary reserve KD</i>	<i>Retained earnings KD</i>			
As at 1 January 2022	14,650,000	917,748	866,845	430,794	16,865,387	-	16,865,387
Total comprehensive income for the year	-	-	-	402,706	402,706	-	402,706
Transfer to reserve	-	41,694	-	(41,694)	-	-	-
As at 31 December 2022	14,650,000	959,442	866,845	791,806	17,268,093	-	17,268,093
As at 1 January 2021	14,650,000	866,845	866,845	(402,483)	15,981,207	2,007	15,983,214
Total comprehensive income for the year	-	-	-	882,173	882,173	-	882,173
Transfer to reserve	-	50,903	-	(50,903)	-	-	-
Change in ownership interests in subsidiaries	-	-	-	2,007	2,007	(2,007)	-
As at 31 December 2021	14,650,000	917,748	866,845	430,794	16,865,387	-	16,865,387

The attached notes 1 to 17 form part of these consolidated financial statements.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	<i>Notes</i>	2022 KD	2021 KD
OPERATING ACTIVITIES			
Profit before tax		416,936	909,507
<i>Non-cash adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation of furniture and equipment		-	657
Unrealised loss (gain) on financial assets at fair value through profit or loss	4	144,840	(38,327)
Realised gain on sale of financial assets at fair value through profit or loss	4	(134,795)	(39,574)
Gain on sale of investment properties	3	-	(101,000)
Valuation gain from investment properties	8	(178,648)	(534,804)
Dividend income	4	(15,000)	(5,000)
Reversal of allowance for expected credit losses	7	(2,565)	(37,964)
Provision for employee's end of service benefits	10	5,596	3,903
Finance costs	12	41,562	24,463
		277,926	181,861
<i>Working capital changes:</i>			
Financial assets at fair value through profit or loss		(370,201)	587,987
Trade and other receivables		71,851	260,165
Other liabilities		402,772	1,636,549
Net cash flows from operations		382,348	2,666,562
Employees' end of service benefits paid	10	(859)	(11,500)
Net cash flows from operating activities		381,489	2,655,062
INVESTING ACTIVITIES			
Dividend income received	4	15,000	5,000
Additions to investment properties	8	(903,452)	(3,839,196)
Proceeds from sale of investment properties		-	1,725,000
Net cash flows used in investing activities		(888,452)	(2,109,196)
FINANCING ACTIVITIES			
Finance costs paid		(38,760)	(24,463)
Net cash flows used in financing activities		(38,760)	(24,463)
NET (DECREASE) INCREASE IN BANK BALANCES AND CASH		(545,723)	521,403
Bank balances and cash as at 1 January		666,834	145,431
BANK BALANCES AND CASH AS AT 31 DECEMBER		121,111	666,834
Non-cash transactions:			
Trade and other receivables	7	6,381,900	-
Additions to investment properties	8	(6,381,900)	-

The attached notes 1 to 17 form part of these consolidated financial statements.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

1 CORPORATE INFORMATION

The consolidated financial statements of Dar Al-Thuraya Real Estate Co. K.S.C. P. (“the Parent Company”) and subsidiaries (collectively, the “Group”) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 30 March 2023 and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by the shareholders at the AGM held on 14 April 2022. No dividends have been declared by the Parent Company.

The Parent Company is a public shareholding company, incorporated and domiciled in the State of Kuwait, and whose shares are publicly traded in Boursa Kuwait since 18 August 2009.

The Parent Company is a subsidiary of Al Madar Finance and Investment Company K.S.C.P. (the “Ultimate Parent Company”), a public shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded.

The Parent Company’s head office is located at Al Salam Tower, Fahad Al Salem Street, Al Salhia and its registered postal address is P.O. Box 1376, Safat 13014, State of Kuwait.

The principal activities are as follows:

- ▶ Owning, selling, purchasing, developing real estate and land plots for the Company’s account in the State of Kuwait or abroad in addition to third party management, without violation of the provisions stipulated in the applicable laws, and their restriction on trading in private housing plots as stated there in.
- ▶ Acquiring, selling, and purchasing shares and bonds of the real estate companies only in favour of the Group inside and outside of Kuwait.
- ▶ Preparing studies and providing consultancy in real estate sector in all its types provided that meeting the required terms as for who carries out this profession.
- ▶ Carrying out maintenance works related to the buildings and properties owned by the Group and others, including maintenance works and carrying out civil, mechanical, and electrical works, elevators and air conditioning works in such a way that maintains buildings and their safety.
- ▶ Organising real estate exhibitions for the Group’s real estate projects in accordance with the regulations applied in the Ministry.
- ▶ Arranging real estate auctions as per the Ministry regulations.
- ▶ Using the financial surplus available with the Group via investing the same in portfolios managed by specialized companies and entities.
- ▶ Direct contribution in the infrastructure of residential, commercial, and industrial areas and projects through (B.O.T) system and management of real estate facilities under the same system.

All activities are conducted in accordance with Islamic Sharia principles, as approved by the Parent Company’s Fatwa and Sharia Supervisory Board.

The Group may have an interest or in any way be associated itself with entities practicing activities similar to its own or which may assist the Company in achieving its objectives in Kuwait or abroad, or may establish, participate in, or acquire these entities or have them affiliated to it.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared on historical cost basis, except for investment securities and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars (“KD”), which is also the Parent Company’s functional currency.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES TO THE GROUP'S ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2.2.1 New standards, interpretations and amendments adopted by the Group

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period.

These amendments had no impact on the consolidated financial statements of the Group as there were no onerous contracts outstanding within the scope of these amendments arisen during the period.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

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. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's consolidated financial instruments during the period.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2022 have not been early adopted in the preparation of the Company's financial statements. None of these are expected to have a significant impact on the consolidated financial statements. Amendments to IAS 1: Classification of Liabilities as Current or Non-current.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practices and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Other new or amended standards which are issued but not yet effective, are not relevant to the Group and have no impact on the accounting policies, financials position or performance of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Basis of consolidation

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

Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

Where practicable, appropriate adjustments for non-uniform accounting policies are made to their financial statements when included in the consolidated financial statements to bring them in line with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.1 Basis of consolidation (continued)

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

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

The consolidated financial statements of the Group include:

Name of subsidiary	Country of incorporation	% Equity interest		Principal activities
		2022	2021	
Al Thuraya Star Company W.L.L.	Kuwait	100%	100%	General trading and contracting
Kuwait Building Real Estate Company K.S.C. (Closed) *	Kuwait	99%	99%	Real estate
Golden Madar Real Estate Company W.L.L.	Kuwait	100%	100%	Real estate trading

* The remaining shares in this subsidiary is held by other parties on behalf of the Group. Therefore, the effective ownership of the Group in this subsidiary is 100%.

2.4.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement in profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation of and the portion of the CGU.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

2.4.3 Revenue recognition

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. The Group has generally concluded that it is the principal in its revenue arrangements.

Rental income

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

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statement of comprehensive income due to its operating nature.

Rendering of services to tenants

For investment property held primarily to earn rental income, the Group enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants (i.e., customers) including common area maintenance services (such as cleaning, security, etc), as well as other support services (e.g., reception services and other related services). The consideration charged to tenants for these services includes fees charged to tenants and reimbursement of certain expenses incurred. These services are separately invoiced.

The Group has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15. The Group allocates the consideration in the contract to the separate lease and revenue (non-lease) components on a relative stand-alone selling price basis.

These services represent a series of daily services that are individually satisfied over time because the tenants simultaneously receive and consume the benefits provided by the Group. The Group applies the time elapsed method to measure progress.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery.

Revenue from of sale of real estate

Income from the sale of real estates is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

The sale of completed property constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For unconditional exchange of contracts, this generally occurs when legal title transfers to the customer. For conditional exchanges, this generally occurs when all significant conditions are satisfied. Payments are received when legal title transfers which is usually within six months from the date when contracts are signed.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.4 Interest income and expense

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

2.4.5 Dividend distribution

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

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

2.4.6 Dividend income

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

2.4.7 Taxes

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax

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

Zakat

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

2.4.8 Financial instruments - initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.8 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

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

a) Financial assets at amortised cost (debt instruments)

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

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

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

The Group has no debt instruments at fair value through OCI.

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

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

The Group elected to classify irrevocably certain equity investments under this category.

c) Financial assets at fair value through profit or loss

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

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

Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.8 Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Bank balances and cash
- ▶ Other assets, excluding prepaid expenses and advances
- ▶ Financial assets measured at amortised cost (credit facilities)

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

Impairment of financial assets other than credit facilities

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

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

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

The Group's financial liabilities include other liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.8 Financial instruments - initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Subsequent measurement

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

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost

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

Financial liabilities at amortised cost

Other liabilities

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

Derecognition

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

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

iii) Offsetting of financial instruments

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

2.4.9 Fair value measurement

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Fair value measurement (continued)

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

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

2.4.10 Investment properties

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

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

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

Transfer from properties under development are made upon completion of the work and the property being ready for its intended use at carrying value and subsequently fair valued at reporting date.

2.4.11 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.12 Employees end of service benefits

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

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

2.4.13 Provisions

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

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

2.4.14 Contingencies

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

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

2.4.15 Foreign currencies

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

Transactions and balances

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

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

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

2.4.16 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.17 Events after the reporting period

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its consolidated financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

2.5.1 Significant judgments

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

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of financial assets

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

Classification of real estate properties

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

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

► ***Determination of performance obligations***

With respect to the sale of property, the Group concluded the goods and services transferred in each contract constitute a single performance obligation. In particular, the promised goods and services in contracts for the sale of property under development mainly include design work, procurement of materials and development of the property. Generally, the Group is responsible for all of these goods and services and the overall management of the project. Although these goods and services are capable of being distinct, the Group accounts for them as a single performance obligation because they are not distinct in the context of the contract. The Group uses those goods and services as inputs and provides a significant service of integrating them into a combined output, i.e., the completed property for which the customer has contracted.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.5.1 Significant judgments (continued)

Revenue from contracts with customers (continued)

► *Determination of performance obligations (continued)*

In relation to the services provided to tenants of investment property (such as cleaning, security, and maintenance) as part of the lease agreements into which the Group enters as a lessor, the Group has determined that the promise is the overall property management service and that the service performed each day is distinct and substantially the same. Although the individual activities that comprise the performance obligation vary significantly throughout the day and from day to day, the nature of the overall promise to provide management service is the same from day to day. Therefore, the Group has concluded that the services to tenants represent a series of daily services that are individually satisfied over time, using a time-elapsed measure of progress, because tenants simultaneously receive and consumes the benefits provided by the Group.

► *Determining the timing of revenue recognition on the sale of property*

The Group has evaluated the timing of revenue recognition on the sale of property based on a careful analysis of the rights and obligations under the terms of the contract and legal advice from the Group's external counsels.

The Group has generally concluded that contracts relating to the sale of property are recognised at a point in time when control transfers. For unconditional exchanges of contracts, control is generally expected to transfer to the customer together with the legal title. For conditional exchanges, this is expected to take place when all the significant conditions are satisfied.

2.5.2 Estimates and assumptions

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

Valuation of investment properties

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

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

Impairment of financial assets at amortised cost

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

Provision for expected credit losses of debt instruments at amortised cost

The Group assesses, on a forward-looking basis, the ECLs associated with its debt instruments carried at amortised cost. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

For other assets, excluding prepaid expenses, advances and amount due from related parties, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

3 NET REAL ESTATE INCOME

	2022 KD	2021 KD
Gain on sale of investment properties (Note 8)	-	101,000
Valuation gains from investment properties (Note 8)	178,648	534,804
Rental income from investment properties	423,530	215,971
Real estate related expenses	(27,144)	(58,692)
	575,034	793,083

4 NET GAIN FROM INVESTMENT SECURITIES

	2022 KD	2021 KD
Dividend income	15,000	5,000
Changes in fair value of financial assets at FVTPL	(144,840)	38,327
Realised gain on sale of financial assets at FVTPL (Note 6)	134,795	39,574
	4,955	82,901

5 EARNINGS PER SHARE (EPS)

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

	2022	2021
Profit for the year (KD)	402,706	882,173
Weighted average number of shares outstanding during the year (shares)	146,500,000	146,500,000
Basic and diluted EPS (fils)	2.75	6.02

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This represents quoted equity investments that are held for trading and for which the Group has not elected to recognise fair value gains and losses through OCI.

In 2022, the Group has sold equity securities with a carrying value of KD 2,525,374 (2021: KD 2,034,521) for a total consideration of KD 2,660,169 (2021: KD 2,074,095). The Group realised a gain of KD 134,795 (2021: KD 39,574) which had already been included within 'net gains from investment securities' in the statement profit or loss (Note 4).

Information about the group's exposure to price risk is provided in (Note15). For information about the methods and assumptions used in determining fair value refer to Note 17.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

7 TRADE AND OTHER RECEIVABLES

	2022 KD	2021 KD
Trade receivables	-	75,195
Receivables from sale of investment properties*	-	6,381,900
Prepaid expenses	34,406	29,932
Accrued rent	3,425	1,990
Other receivables	1,200	1,200
	<u>39,031</u>	<u>6,490,217</u>

* In 2022, the Group reversed receivables from sale of investment properties amounting to KD 6,381,900 upon revocation of the sale contract entered into in 28 December 2020. The underlying properties associated with the sale contract have been reinstated as investment properties as at 31 December 2022 (Note 8). There are no contractual commitments on the termination of the sale contract with the third party.

The maximum exposure to credit risk exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The net carrying value of receivables is considered a reasonable approximation of fair value.

As at 31 December 2022, the Group tenant receivables of KD 3,425 (2021: KD 1,990) which is net of allowance for expected credit losses of KD 676,889 (2021: KD 679,454). Set out below is the movement in allowance for impaired receivables:

	2022 KD	2021 KD
As at 1 January	679,454	717,418
Reversal of ECL	(2,565)	(37,964)
As at 31 December	676,889	679,454

Note 15 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses on the Group's receivables.

8 INVESTMENT PROPERTIES

	2022 KD	2021 KD
As at 1 January	12,450,000	9,700,000
Additions	848,000	3,324,000
Reinstated properties upon revocation of sale contract (Refer to Note 7 for further details)	6,381,900	-
Capital expenditure on owned property ¹	55,452	515,196
Disposals	-	(1,624,000)
Change in fair value ²	178,648	534,804
As at 31 December	19,914,000	12,450,000

Included in investment properties, an income generating developed property in the State of Kuwait with a carrying value of KD 1,603,000 (2021: KD 1,700,000) that is financed through an Islamic profit-bearing loan payable to a related party amounting to KD 1,044,099 as at (2021: KD 1,041,297) included under other liabilities in the consolidated statement of financial position (Note 12). The property is registered in the name of the related party (Shareholder of the Ultimate Parent Company) who has confirmed in writing through an irrevocable power of attorney that the risks and rewards associated with the property lies with the Group.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

8 INVESTMENT PROPERTIES (continued)

During the year, the Parent Company entered into a preliminary contract (the “Contract”) to sell an investment property in the State of Kuwait and received an advance of KD 50,000. The Contract specifies the terms of sale and the contractual obligations of each party. The Contract requires the buyer to pay the full amount before the transfer of ownership, therefore, substantially eliminating the Group’s credit risk in this respect.

¹ During the year, the Group has incurred capital expenditure in respect of certain properties under development amounting to KD 55,452 (2021: KD 515,196).

² The fair value of investment properties has been determined based on valuations performed by two independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. As required by the Capital Market Authority (CMA), the Group has selected the lower of these valuations. fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method, under the Level 3 fair value hierarchy, is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter (‘sqm’). Based on these valuations, the fair value of investment properties witnessed an increase of KD 178,648 compared to its carrying values as at 31 December 2022 (2021: KD 534,804).

Investment properties are categorised into:

	2022	2021
	KD	KD
Properties under development	10,805,000	10,750,000
Developed properties	9,109,000	1,700,000
	19,914,000	12,450,000

Geographic concentration of the underlying investment properties as follows:

	2022	2021
	KD	KD
State of Kuwait	19,914,000	12,450,000

Fair value hierarchy

The following tables show an analysis of the fair values of investment property recognised in the statement of financial position by level of the fair value measurement hierarchy:

	2022	2021
	KD	KD
Market comparable method – Level 2	10,805,000	10,750,000
Income capitalisation method – Level 3	9,109,000	1,700,000
	19,914,000	12,450,000

A quantitative sensitivity analysis is, as shown below:

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

Significant unobservable valuation input (Level 2)

	<i>Range</i>		<i>Changes in assumptions</i>	<i>Effect on fair value</i>	
	2022	2021		2022	2021
	KD	KD		KD	KD
Price per square meter	945	940	±5%	540,250	537,500

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

8 INVESTMENT PROPERTIES (continued)

Significant unobservable valuation inputs (Level 3)

	<i>Range</i>		<i>Sensitivity used</i>	<i>Effect on fair value</i>	
				<i>2022</i>	<i>2021</i>
				<i>KD</i>	<i>KD</i>
Average rent	13.67	10.90	± 5%	455,450	85,000
Capitalisation rate	8.4%	7.0%	± 50 basis point	(433,761)	(76,333)
Occupancy rate	100%	100%	- 5%	(455,450)	(85,000)

Reconciliation of Level 3 fair values

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

	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	1,700,000	1,700,000
Additions	848,000	-
Recognised upon revocation of sale contract	6,381,900	-
Capital expenditure on owned property	4,240	-
Remeasurements recognised in profit or loss	174,860	-
As at 31 December	9,109,000	1,700,000

9 EQUITY

9.1 Share capital

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	146,500,000	146,500,000	146,500,000	14,650,000

9.2 Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors.

The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice unless such reserve exceeds 50% of the issued share capital.

9.3 Voluntary reserve

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

The Board of Directors have resolved to discontinue the transfers to the voluntary reserves, subject to the approval of the shareholder at the AGM.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

10 EMPLOYEES' END OF SERVICE BENEFITS

Set out below is the movement in the provision for employees' end of service benefits:

	2022 KD	2021 KD
As at 1 January	19,595	27,192
Provided during the year	5,596	3,903
Paid during the year	(859)	(11,500)
As at 31 December	24,332	19,595

11 OTHER LIABILITIES

	2022 KD	2021 KD
Accrued expenses	4,083	54,234
Amount due to related parties (Note 12)	3,550,049	3,019,913
Taxes payable	44,511	25,602
Advances received (Note 8)	50,000	-
Other payables	24,668	153,758
	3,673,311	3,253,507

12 RELATED PARTY DISCLOSURES

These represent transactions with certain parties (Ultimate Parent Company, associates, major shareholders, directors and executive officers of the Parent Company, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence) entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management.

The aggregate value of outstanding balances and transactions with related parties were as follows:

	<i>Ultimate Parent Company KD</i>	2022 KD	2021 KD
Consolidated statement of financial position			
Other liabilities*	3,550,049	3,550,049	3,019,913

* Payables to related parties classified under other liabilities include an amount of KD 1,044,099 (2021: KD 1,041,297) which carries a fixed interest rate of 4.3% (2021: 3.8%) and denominated in KD. The amount represents financing the purchase of an investment (note 8). The amount is repayable at maturity on 30 June 2023 and is therefore classified as a current liability. The Group had incurred finance costs amounting to KD 41,562 (2021: KD 24,463).

Terms and conditions of transactions with related parties

Transactions with related parties are made on terms approved by the Group's management. Outstanding balances at the year-end are unsecured, interest free and repayable on demand. There have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

12 RELATED PARTY DISCLOSURES (continued)

Transactions with key management personnel (continued)

The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

	<i>Transaction values for the year ended 31 December</i>		<i>Balance outstanding as at 31 December</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and other short-term benefits	34,315	34,122	16,368	12,420
Employees' end of service benefits	5,284	5,284	16,604	7,100
	39,599	39,406	32,972	19,520

The Board of Directors of the Parent Company proposed no directors' remuneration for the year ended 31 December 2022 (2021: Nil). This proposal is subject to the approval of the shareholders of the Parent Company at the AGM.

Dar Al-Thuraya Real Estate Company K.S.C. P. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

13 SEGMENT INFORMATION

For management purposes, the Group is organised into three major business segments. The principal activities and services under these segments are as follows:

- ▶ **Real estate:** Buying, selling, capital appreciation and investing in real estate
- ▶ **Investment:** investment in subsidiaries, associates and equity securities.
- ▶ **Others:** revenues and expenses that are not included under the above sectors

Segment results include revenue and expenses directly attributable to a segment. There are no significant inter-segment transactions. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment. Segmental reporting information for the year ended 31 December is as follows:

	<i>Real estate</i>		<i>Investment</i>		<i>Others</i>		<i>Total</i>	
	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Segment revenue	575,034	793,083	4,955	82,901	20,863	196,989	600,852	1,072,973
Segment profit (loss)	575,034	793,083	4,955	82,901	(177,283)	6,189	402,706	882,173
Total assets	19,917,425	12,450,000	891,594	531,438	156,717	7,157,051	20,965,736	20,138,489
Total liabilities	1,099,724	1,044,297	338	73,042	2,597,581	2,155,763	3,697,643	3,273,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

14 COMMITMENTS

14.1 Commitments

The Group has no commitments in respect of certain investment properties (2021: KD 1,812).

15 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise other liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include bank balances and cash, financial assets at fair value through the consolidated statement of comprehensive income, other assets (excluding prepaid expenses and advances) and financial assets at fair value through other comprehensive income.

The Group is exposed to market risk (including equity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

15.1 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

15.1.1 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the management of the Company. The Company manages the equity price risk on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short-term changes in fair value.

The effect of equity price risk on the Company's income as a result of a change in the fair value of financial assets at fair value through profit or loss, at the reporting date, due to an assumed 5% change in market index adjusted for beta with all other variables held constant, is as follows:

	<i>Effect on profit for the year</i>	
	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>
Boursa Kuwait	44,580	26,572

Sensitivity to equity price movements will be on symmetric basis as financial instruments giving rise to non-symmetric movements are not significant

15.1.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed by the investment department of the Parent Company on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The Group had no exposure to foreign currencies other than the denominated currency of their operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

15 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

15.1.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's other liabilities with floating interest rates.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following scenario demonstrates the sensitivity of the consolidated statement of profit or loss to reasonably possible changes in interest/ profit rates, with all other variables held constant:

<i>Currency</i>	<i>2022</i>		<i>2021</i>	
	<i>Increase in basis points</i>	<i>Effect on profit for the year KD</i>	<i>Increase in basis points</i>	<i>Effect on profit for the year KD</i>
Kuwaiti Dinar	50	(52,205)	50	(52,065)

Interest rate risk sensitivity to interest rate movements will be on a symmetric basis as financial instruments that give rise to non-symmetric movement is not significant.

15.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (other assets, excluding prepaid expenses and advances) and from its financing activities, including bank balances.

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

	<i>2022 KD</i>	<i>2021 KD</i>
Bank balances	121,111	666,834
Tenant receivables	680,314	681,444
Trade and other receivables (excluding prepaid expenses and advances)	4,625	6,460,285
	806,050	7,808,563

Bank balances

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

Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balances have low credit risk based on the external credit ratings of the counterparties.

Tenant receivables

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

15 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

15.2 Credit risk (continued)

Tenant receivables (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

2022	Tenant receivables		
	Current KD	Days past due	
		>365 days KD	Total KD
Estimated total gross carrying amount at default	3,425	676,889	680,314
Estimated credit loss	-	676,889	676,889
Expected credit loss rate	0%	100.0%	99.5%

2021	Tenant receivables		
	Current KD	Days past due	
		>365 days KD	Total KD
Estimated total gross carrying amount at default	1,990	679,454	681,444
Estimated credit loss	-	679,454	679,454
Expected credit loss rate	0%	100.0%	99.7%

Other receivables

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

15.3 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, 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 financial liabilities based on contractual undiscounted payments:

	On demand KD	Less than 3 months KD	3 to 12 months KD	Total KD
2022				
Other liabilities	2,505,950	4,083	1,163,278	3,673,311
2021				
Other liabilities	1,978,616	54,234	1,220,657	3,253,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

16 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2022 and 2021.

Capital comprises of equity is measured at of KD 17,268,093 as at 31 December 2022 (2021: KD 16,865,387).

17 FAIR VALUE MEASUREMENT

Fair value hierarchy

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

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

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

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

17.1 Financial instruments

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Listed investment in equity securities

Fair values of publicly traded equity securities are based on quoted bid prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

The following table provides the fair value measurement hierarchy of the Company's financial instruments:

	<i>Fair value KD</i>	<i>Level of hierarchy</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
2022				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equity securities	<u>891,594</u>	Level 1	Bid price	Not applicable
2021				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equity securities	<u>531,438</u>	Level 1	Bid price	Not applicable

The fair values of other financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having short term maturities (less than twelve months) it is assumed that carrying amounts approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

17 FAIR VALUE MEASUREMENT (continued)

17.1 Financial instruments (continued)

Valuation methods and assumptions (continued)

Other financial assets and liabilities at amortised cost

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short term maturity or re-priced immediately based on market movement in interest rates. The fair value of financial assets and financial liabilities with a demand feature is not less than its face value.

17.2 Non-financial assets

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

The significant unobservable inputs used in the fair value measurement of investment properties as at 31 December 2022 and 2021 are disclosed in Note 8.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over.

We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The MENA practice of EY has been operating in the region since 1923. For more than 90 years, we have grown to more than 6,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

© 2017 EYGM Limited.

All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/mena