

**DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)
AND SUBSIDIARIES
STATE OF KUWAIT
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH
INDEPENDENT AUDITOR'S REPORT**

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING)
AND SUBSIDIARIES
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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Dar Al Dhabbi Holding Company K.S.C. (Holding)
State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

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

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

Basis for Qualified Opinion

- (a) As mentioned in Note 4 (a) to the accompanying consolidated financial statements, the balance of trade payables and the accumulated losses do not include a disputed claim of interest and other charges amounting to KD 16,949,157 (AED 205,397,772) raised by a party (Master Developer) against the Parent Company's subsidiary for overdue contractual amounts towards acquisition of properties under development. Pending settlement of dispute, we are unable to ascertain if any adjustments are necessary to the balance payable to Master Developer as at December 31, 2019.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with 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 qualified opinion.

Material Uncertainty Related To Going Concern

We draw attention to Note (16) to the accompanying consolidated financial statements, which indicates that the Group's current liabilities exceeded its current assets by KD 28,075,561. As stated in Note (16), this condition, along with other matters as set forth in Note (16), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

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Emphasis of Matter

We draw attention to Note (12) to the accompanying consolidated financial statements which describes the lawsuits filed against and by the Group. Our opinion is not further modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of association, as amended, have occurred during the financial year ended December 31, 2019 that might have had a material effect on the business of the Parent Company or on its financial position.

State of Kuwait
October 15, 2020


Nayef M. Al Bazie
License No. 91-A
RSM Albazie & Co.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Current assets:			
Cash on hand and at banks		4,123	4,462
Total current assets		4,123	4,462
Non-current assets:			
Properties under development	3	73,684,820	73,745,629
Total non-current assets		73,684,820	73,745,629
Total assets		73,688,943	73,750,091
<u>LIABILITIES AND EQUITY</u>			
Current liabilities			
Accounts payable and other credit balances	4	28,079,684	26,014,079
Total current liabilities		28,079,684	26,014,079
Non-current liabilities:			
Revenue received in advance	5	5,903,037	5,907,911
Due to a related party	6	8,195,875	8,023,686
Provision for end of service indemnity		10,640	2,298
Total non-current liabilities		14,109,552	13,933,895
Total liabilities		42,189,236	39,947,974
Equity:			
Share capital	7	100,000,000	100,000,000
Share premium	8	4,950,000	4,950,000
Statutory reserve	9	22,739	22,739
Voluntary reserve	10	22,739	22,739
Foreign currency translation adjustments		(735,190)	(740,062)
Accumulated losses		(72,760,581)	(70,453,299)
Total equity		31,499,707	33,802,117
Total liabilities and equity		73,688,943	73,750,091

The accompanying notes (1) to (17) form an integral part of the consolidated financial statements.

Faisal Ali Al-Mutawa
Chairman

Mohamed Hamad Al-Mutawa
Vice Chairman



DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

(All amounts are in Kuwaiti Dinars)

	Note	2019	2018
Revenue:			
Impairment loss on properties under development	3	(1,361,505)	(1,253,503)
		<u>(1,361,505)</u>	<u>(1,253,503)</u>
Expenses and other charges:			
General and administrative expenses		52,382	16,293
Provision for legal claim	4	780,915	-
Finance costs	6	135,000	135,000
Foreign exchange (gain) loss		(22,520)	139,583
		<u>945,777</u>	<u>290,876</u>
Loss for the year		<u>(2,307,282)</u>	<u>(1,544,379)</u>
Other comprehensive income (loss):			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Exchange differences on translating foreign operations		4,872	(30,194)
Other comprehensive income (loss) for the year		<u>4,872</u>	<u>(30,194)</u>
Total comprehensive loss for the year		<u>(2,302,410)</u>	<u>(1,574,573)</u>

The accompanying notes (1) to (17) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

(All amounts are in Kuwaiti Dinars)

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation adjustments	Accumulated losses	Total
Balance as at December 31, 2017	100,000,000	4,950,000	22,739	22,739	(709,868)	(68,908,920)	35,376,690
Total comprehensive loss for the year	-	-	-	-	(30,194)	(1,544,379)	(1,574,573)
Balance as at December 31, 2018	100,000,000	4,950,000	22,739	22,739	(740,062)	(70,453,299)	33,802,117
Total comprehensive income (loss) for the year	-	-	-	-	4,872	(2,307,282)	(2,302,410)
Balance as at December 31, 2019	100,000,000	4,950,000	22,739	22,739	(735,190)	(72,760,581)	31,499,707

The accompanying notes (1) to (17) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

(All amounts are in Kuwaiti Dinars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Loss for the year	(2,307,282)	(1,544,379)
Adjustments for:		
Impairment loss on properties under development	1,361,505	1,253,503
Provision for end of service indemnity	8,342	456
Provision for legal claim	780,915	-
Finance costs	135,000	135,000
Foreign exchange (gain) loss	(22,520)	139,583
	(44,040)	(15,837)
Changes in operating assets and liabilities:		
Accounts payable and other credit balances	3,415	(1,706)
Net movement in related party balances	40,286	19,433
Net cash flows (used in) generated from operating activities	(339)	1,890
Net (decrease) increase in cash on hand and at banks	(339)	1,890
Cash on hand and at banks at the beginning of the year	4,462	2,572
Cash on hand and at banks at the end of the year	4,123	4,462

The accompanying notes (1) to (17) form an integral part of the consolidated financial statements.

DAR AL DHABI HOLDING COMPANY K.S.C. (HOLDING) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(All amounts are in Kuwaiti Dinars)

1. Incorporation and activities of the Parent Company

Dar Al Dhabi Holding Company (the Parent Company) is a Kuwaiti shareholding company incorporated through an agreement No. 6601/Vol. 1 dated August 30, 2004. The Parent Company's commercial registration number is 103326 dated October 23, 2005 and its latest amendment on July 1, 2016.

The objectives of the Parent Company are:

- a) Own shares of Kuwaiti or foreign shareholding companies, shares or stocks of Kuwaiti or foreign limited liability companies or participate in the incorporation and management of these types of companies including lending and guarantee activities.
- b) Granting loans to companies in which the Company is a shareholder and guarantee them provided that the Company's share in the borrowing company's capital shall not be less than 20%.
- c) Own industrial property rights including patents, industrial trademarks, industrial fees or any other rights related thereto and leasing the same to other companies for usage inside and outside Kuwait.
- d) Own tangible assets and real estates required to conduct its activities as permitted by the law.
- e) Use available surplus in the investment of financial portfolios managed by specialized companies and entities.

The Parent Company may conduct the aforementioned business inside and outside Kuwait as a principal or an agent. The Parent Company may have interest or participate in any manner in entities conducting similar activities or assist them in achieving their objectives inside or outside Kuwait. Also, it may establish, participate or purchase such entities or have them annexed to it.

Dar Al Dhabi Holding Co. K.S.C. (Holding) (the "Parent Company") is a subsidiary of Bayan Investment Company K.S.C. (Public) (the "Ultimate Parent Company") and is listed in Bursa Kuwait.

The Parent Company is located in Suad Commercial Building, Fahad Al-Salem St., Area 12, Building No. 21 and its registered address is P.O. Box No. 104, Al Dasma 35151, State of Kuwait.

The consolidated financial statements were approved for issue by the Board of Directors on October 15, 2020. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company and are prepared under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. 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 preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(p).

Adoption of new and revised standards

New and amended IFRS standard that is effective for the current year:

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standard as at January 1, 2019:

IFRS 16 - Leases

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

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

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 and accordingly, the comparative information is not restated.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Impact on Lessee Accounting

Former operating leases:

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16, for all leases (except as noted below), the Company:

- a) Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- b) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of profit or loss.

Lease incentives (e.g. free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortized as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

Former finance leases:

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Transition

On applying the requirements of IFRS 16, the Group has determined that no impact arises on its consolidated financial statements.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments are not expected to have material impact on the consolidated financial statements.

Annual Improvements 2015 – 2017 Cycle (issued in December 2017)

IFRS 3 – Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are not expected to have material impact on the consolidated financial statements.

IFRS 11 – Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are not expected to have material impact on the consolidated financial statements.

IAS 23 – Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

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

New and revised IFRS standards in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

Definition of a Business (Amendments to IFRS 3)

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

These amendment are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of the standard.

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and the following subsidiaries (collectively the "Group"):

<u>Name of the subsidiary</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>Percentage of holding</u>	
			2019	2018
<u>Directly held:</u>				
Dar Al Dhabi Real Estate Co. (K.S.C.C.) (DAD RE) (a)	Kuwait	Real Estate	99%	99%
<u>Held through DAD RE:</u>				
Emirates Dar Al Dhabi Real Estate Co. (L.L.C.)	UAE	Real Estate	100%	100%

(a) The other 1% investment is registered in the name of a related parties and there is a waiver letters that the beneficial ownership of this investment is in favor of the Group.

Subsidiaries (investees) are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:

- has power over the investee.
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Parent Company reassess 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 listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholders' share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the Group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings as appropriate.

c) Current vs non-current classification:

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification.

An asset is current when it is:

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

A liability is current when:

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

The Group classifies all other assets and liabilities as non-current.

d) Financial instruments

The Group classifies its financial instruments, as "Financial assets" and "Financial liabilities". Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash at banks, payables and due to a related party.

(A) Financial assets

I. Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test'). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition that may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Initial recognition

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL.

Derecognition

A financial asset (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the financial asset have expired; or the Group has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Measurement categories of financial assets

- The Group classifies its financial assets upon initial recognition as debt instruments at amortized cost

Debt instruments at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments measured at amortized cost are subsequently measured at amortized cost using the effective yield method adjusted for impairment losses if any. Gain and losses are recognized in consolidated statement of profit or loss when the asset is derecognized, modified or impaired.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating and recognizing interest revenue or interest expense in profit or loss over the relevant period. In general, effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Cash on hand and at banks classified as debt instruments at amortized cost.

II. Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECL) 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. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group's cash at banks measured at amortized cost are considered to have a low credit risk and the loss allowance is based on the 12 months expected loss. The Group's cash are placed with high credit rating financial institutions with no recent history of default. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

(B) Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. All financial liabilities are subsequently measured at FVTPL or at amortized cost using effective interest rate method.

Financial liabilities at amortized cost

Financial liabilities that are not at FVTPL as above are measured subsequently at amortized cost using the effective interest method.

(i) Accounts payable

Accounts payables include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of profit or loss. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

(C) Offsetting of financial assets and liabilities

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

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e) Properties under development

Properties under development are developed for future sale in the ordinary course of business by transfer to inventory properties, rather than to be held for rental or capital appreciation and are stated at the lower of cost or net realizable value. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property. The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed.

f) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

g) Provision for end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector, employee contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period, and approximates the present value of the final obligation.

h) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and 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. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

i) Capital

Ordinary shares are classified as equity.

j) Revenue recognition

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

The Group applies a five-step model as follows to account for revenue arising from contracts:

- Step 1: Identify the contract with the customer – A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2: Identify the performance obligations in the contract – A performance obligation is a promise in a contract with the customer to transfer goods or services to the customer.
- Step 3: Determine the transaction price – The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised good or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4: Allocate the transaction price to the performance obligations in the contracts – For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group recognizes revenue 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 transfers control of a good or service over time (rather than at a point in time) when any of the following criteria are met:

- The Customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The Group's performance creates or enhances an asset (e.g., work in process) that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Control is transferred at a point in time if none of the criteria for a good or service to be transferred over time are met. The Group considers the following factors in determining whether control of an asset has been transferred:

- The Group has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

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

Incremental costs of obtaining a contract with a customer are capitalized when incurred as the Group expects to recover these costs and such costs would not have incurred if the contract has not been obtained. Sales commission incurred by the Group is expensed as the amortization period of such costs is less than a year.

Revenue for the Group arises from the following activities:

(i) Sale of properties under development

Revenue is recognized when control over the property has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer and is measured at the transaction price agreed under the contract.

(ii) Other income and expenses

Other income and expenses are recognized on an accrual basis.

k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

l) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income. Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

m) Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to KFAS is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration and after deducting accumulated losses and transfer to statutory reserve. There is no contribution to KFAS due to loss incurred during the year and the accumulated losses as of the end of the year.

n) Zakat

Zakat is calculated at 1% of the profit of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration in accordance with Law No. 46 for the year 2006 and the Ministerial of Finance Resolution No. 58 for the year 2007 and their Executive Regulations. No Zakat has been provided since there was no eligible profit on which Zakat could be calculated.

o) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

p) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under 1FRS 15 and revenue accounting policy explained in Note (2-j) are met requires significant judgment

(ii) Classification of land

Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

1) Properties under development

When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

2) Work in progress

When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

3) Properties held for trading

When the intention of the Group is to sell land in the ordinary course of business, the land are classified as properties held for trading.

4) Investment properties

When the intention of the Group is to earn rentals from land or hold land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

(iii) Leases

Critical judgements required in the application of IFRS 16 include, among others, the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Classification of lease agreements (when the entity is a lessor);
- Determination of whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement;
- Determining the stand-alone selling prices of lease and non-lease components.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

(ii) Impairment of properties under development

Properties under development are measured at the lower of cost and net realizable value. When there is an impairment indication, an estimate is made of their net realizable value. The Group performs an annual valuation exercise through foreign accredited independent valuer to test the properties under development for any impairment. Estimation is performed based on expected selling prices, fair market value or with reference to recent market transactions of similar properties less incremental costs for disposing of the asset. In estimating the net realizable value of the properties, the valuer primarily used the market approach valuation technique considering the nature and usage of the properties. Any difference between the net realizable value and carrying value is recognized in the consolidated statement of profit or loss.

3. Properties under development

The movement during the year is as follows:

	<u>2019</u>	<u>2018</u>
Balance at the beginning of the year	73,745,629	74,999,132
Additions (Note 12)	1,300,696	-
Impairment loss on properties under development	<u>(1,361,505)</u>	<u>(1,253,503)</u>
Balance at the end of the year	<u>73,684,820</u>	<u>73,745,629</u>

Properties under development are as follows:

	<u>2019</u>	<u>2018</u>
Lands	134,104,463	134,104,463
Consultancy and design	7,087,112	5,786,416
Impairment loss on properties under development	<u>(67,506,755)</u>	<u>(66,145,250)</u>
	<u>73,684,820</u>	<u>73,745,629</u>

Properties under development represent plots of land located in Reem Island - Abu Dhabi (UAE) and held with a view to be developed for sale in the future as residential apartments, offices and retail outlets. Based on the management assessment, the estimated cost of the project is AED 3,508,594,819 (KD 289,524,683). The ownership will be transferred as per paragraph No. 7.2 of the contract upon full payment and completion of the development work.

Impairment loss on properties under development for the year ended December 31, 2019 are recognized based on the valuation carried out by foreign independent accredited valuer outside Kuwait. In estimating the net realizable value of the properties under development, the market value approach has been used, considering the nature and usage of the properties under development.

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4. Accounts payable and other credit balances

	<u>2019</u>	<u>2018</u>
Trade payables (a)	27,287,149	26,005,875
Provision for legal claim (b)	780,915	-
Accrued expenses	7,003	8,003
Accrued staff leave	4,617	201
	<u>28,079,684</u>	<u>26,014,079</u>

(a) Trade payables include KD 23,534,238 (AED 285,198,845) (2018: KD 23,553,660 (AED 285,198,845)) that represent the remaining amount payable to the Master Developer on the acquisition of properties under development (Note 3) which is overdue as at December 31, 2019. As per the Master Developer's lawyer notice received by the Parent Company's subsidiary to settle the outstanding balance, the Master Developer has claimed interest and other charges amounting to KD 16,949,157 (AED 205,397,772) on the overdue balance for which the subsidiary is not in agreement and accordingly has not accounted the interest due and other charges in the books of account. The Group's management is still in the first stages of the oral negotiations with the Master Developer and the Group is confident of obtaining an exemption of the related interest and other charges once the development process commences and thus in line with a precedence with one of the developers in Reem Island - Abu Dhabi (UAE) of obtaining exemption of the interest and other charges on commencement of development process.

(b) This represents the provision for the legal interest calculated on the balance due to KEO International Consultants Company (Note 12).

5. Revenue received in advance

Revenue received in advance represents advances from customers for booking residential apartments or offices that would be constructed as part of the properties under development (Note 3). Certain customers have raised legal cases claiming refund for the advances paid and final verdicts have been favorably issued for some of them.

6. Related party balances and transactions

The Group has entered into various transactions with related parties, i.e. Major shareholders. Prices and terms of payment are to be approved by the Group's management. Significant related party balances and transactions are as follows:

	<u>Major shareholders</u>	<u>2019</u>	<u>2018</u>
(i) <u>Balances included in the consolidated statement of financial position:</u>			
Due to a related party	(8,195,875)	(8,195,875)	(8,023,686)
(ii) <u>Transactions included in the consolidated statement of profit or loss:</u>			
Finance costs (a)	(135,000)	(135,000)	(135,000)

(a) During the year ended December 31, 2009, the Parent Company obtained financing from the Ultimate Parent Company amounting to KD 3,000,000 to finance the payments for properties under development. The effective interest rate was 4.5% (2018: 4.5%) per annum. Accordingly finance costs amounting to KD 135,000 have been recognized in the consolidated statement of profit or loss for the year ended December 31, 2019 (2018: KD 135,000).

(iii) **Compensation to key management personnel:**

The Group did not incur any compensation related to key management personnel for the year ended December 31, 2019, since all the key management personnel are employees of the Ultimate Parent Company.

7. **Share capital**

The authorized, issued and fully paid-up capital consists of 1,000,000,000 shares of 100 fils each and all shares are paid in cash (2018: 1,000,000,000 shares).

8. **Share premium**

This represents cash received in excess of the par value of the shares issued. The share premium is not distributable except in cases stipulated by law.

9. **Statutory reserve**

As required by Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may discontinue resolve such annual transfer when the reserve exceeds 50% of capital. This reserve is not available for distribution except for in certain cases stipulated by law and the Parent Company's Articles of Association. Since there is a loss for the year and accumulated losses as of the end of the year, there is was no transfer to statutory reserve during the year.

10. **Voluntary reserve**

As required by the Parent Company's Articles of Association, a percentage of profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, Zakat and Board of Directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Shareholders' Annual General Assembly upon recommendation by the Board of Directors. Since there is a loss for the year and accumulated losses as of the end of the year, there is was no transfer to voluntary reserve during the year.

11. **General assembly and proposed dividends**

The Board of Directors proposed not to distribute cash dividends for the financial year ended December 31, 2019. This proposal is subject to the approval of the Shareholders' Annual General Assembly.

The Shareholders' Annual General Assembly held on May 19, 2019 approved:

- a) The consolidated financial statements for the year ended December 31, 2018.
- b) Board of Directors' proposal not to distribute cash dividends for the financial year ended December 31, 2018.

12. Legal cases

- (a) On January 23, 2017, KEO International Consultants Company ("Plaintiff") filed a case against Dar Al Dhabi Real Estate Company K.S.C.C. (wholly owned subsidiary) ("Defendant") through Case No. 1127/2017 requesting the defendant to pay an amount of AED 50,869,550 and USD 109 thousand equivalent to KD 4,199,073 in addition to legal interest of 7% per annum from the due date until final payment which as per the Plaintiff's assertion relating to consultancy engineering contracts. On April 3, 2017, the defendant counter-filed a case requesting to appoint an expert and liquidating the account. On April 3, 2017, the case was transferred to the experts' department. On January 20, 2020, the "Court of First Instance" issued its verdict in favor of the plaintiff by obligating the defendant to pay an amount of AED 45,258,452 and USD 60,201 equivalent to KD 3,752,913 in addition to the legal interest of 7% per annum due on the payable balance calculated from the legal case raising date (January 11, 2017) until final payment. Accordingly, the Group recognized the remaining payable balance due to the plaintiff amounting to KD 1,300,696 by increasing the carrying value of the properties under development during the year ended December 31, 2019 in addition to providing a provision for the due legal interest (Note 4 (b)). On February 18, 2020, the defendant appealed against the verdict through case No. 1514/2020 in the "Court of Appeal".

On September 1, 2020, the "Court of appeal" issued its verdict in favor of the plaintiff in the case No. 1514/2020 by obligating the defendant to pay an amount of AED 50,869,550 and USD 109,300 or its equivalent to Kuwaiti Dinars in addition to the legal interest of 7% per annum due on the payable balance calculated from the legal case raising date (December 26, 2016) until final payment.

- (b) In addition to the above, there are legal cases being raised by and against the Group as at December 31, 2019. According to the available information, it was not possible to assess probable outflows which could result from those cases until a final verdict is rendered by the court. Accordingly, no provision for any liability has been made in these consolidated financial statements in relation to these legal cases.

13. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash at banks, payables and due to a related party and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. At present, the Group has no significant exposure to such risk since the funding received from the Ultimate Parent Company carry a fixed rate of return.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks.

Cash at banks

The Group's cash at banks measured at amortized cost are considered to have a low credit risk and the loss allowance is based on the 12 months expected loss. The Group's cash are placed with high credit rating financial institutions with no recent history of default. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks.

c) Foreign currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in the foreign exchange rate. The Group's exposure to currency risk arises from the balances denominated in UAE Dirham from its wholly owned subsidiary, Dar Al Dhabi Real Estate Co. (K.S.C.C.) and its subsidiary. The management monitors its exposure to currency risk periodically.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between foreign currency and Kuwaiti Dinars.

Year	Increase / (Decrease) against KD	Effect on consolidated statement of profit or loss	Effect on other comprehensive income
<u>2019</u>			
UAE Dirham	± 5%	± 1,364,394	± 295,159
<u>2018</u>			
UAE Dirham	± 5%	± 1,365,520	± 295,403

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group's management is still in the first stages of the oral negotiations on the terms of settlement of trade payables amounting to KD 23,534,238 and related charges with the Master Developer which pertains to the outstanding balance payable for the acquisition of properties under development (Note 4).

The maturity profile of financial liabilities was as follows:

	3-12 Months	More than 1 year	Total
<u>2019</u>			
Accounts payable and other credit balances	28,079,684	-	28,079,684
Due to a related party	-	8,195,875	8,195,875
	<u>28,079,684</u>	<u>8,195,875</u>	<u>36,275,559</u>
<u>2018</u>			
Accounts payable and other credit balances	26,014,079	-	26,014,079
Due to a related party	-	8,023,686	8,023,686
	<u>26,014,079</u>	<u>8,023,686</u>	<u>34,037,765</u>

e) Equity price risk

Equity price risk is the risk that fair values of equity instrument decrease as the result of changes in level of equity indices and the value of individual stocks. As at December 31, 2019, the Group has no exposure to such risk.

14. 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.

At December 31, the fair values of financial instruments approximate their carrying amounts. The management of the Group has assessed that fair value of cash on hand and at banks, accounts payable and due to a related party approximate their carrying amounts largely due to the short-term maturities of these instruments.

15. Capital risk management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

16. Going concern

As at December 31, 2019, the Group's current liabilities exceeded its current assets by KD 28,075,561 (2018: KD 26,009,617). The consolidated financial statements have been prepared assuming the Group will continue as a going concern. The Group's ability to continue as a going concern depends on its ability to improve profitability, enhance its future cash flows, restructure its debt repayments, and continued support of its shareholders and financial institutions.

In the opinion of the Group's management, despite the existence of a material uncertainty about the Group's ability to continue as a going concern, which might result in the Group's inability to realize its assets and discharge its liabilities in the normal course of business, the Group's management is still in the first stages of the oral negotiations with the Master Developer and the Group is confident of obtaining an exemption of the related interest and other charges once the development process commences and thus in line with a precedence with one of the developers in Reem Island - Abu Dhabi (UAE) of obtaining exemption of the interest and other charges on commencement of development process. The Group's management has reasonable expectations that the Master Developer will restructure the outstanding credit balance because of the Group's quality of investments and assets. If the Group is unable to reschedule the trade payable and related charges for the foreseeable future, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

17. Subsequent events

The Coronavirus (COVID-19) outbreak ("the outbreak") since early 2020 has caused widespread disruptions to economic activities around the world, with a consequential negative impact on the business of the Group. The Group is closely monitoring the impact of the developments on its businesses, specifically for determining the net realizable value of the properties under development. As the situation is fast evolving, the effect of the outbreak is subject to significant levels of uncertainty, with the full range of possible effects still unknown. Consequently, the impact on the Group cannot be reasonably quantified at the date of issuance of these consolidated financial statements.