

**Risk  
Guided  
Return**

HAYAT INVEST

ANNUAL  
REPORT

2020

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# Chairman's Statement

**Dear Shareholders,**

By the grace of Almighty Allah, I am pleased to present to you the eleventh annual report of the company.

Your Company's assets have increased substantially from KD 16.75 million as of end of 2009 to KD 67.82 million today. The corresponding increase in shareholders' equity has been from KD 16.47 million to KD 52.44 million. The investment portfolio primarily consists of real estate projects in Saudi Arabia and Lebanon with a significant portion of assets invested in our flagship property, Al Nakhla Compound in Riyadh.

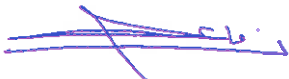
In accordance with our plan for the year, we focused on improving the operational status of our projects. Towards this objective, we can report some success. Al Nakhla Compound is currently at full occupancy with strong positive cash flow and an outstanding tenant roster. Our project in Baabda, Lebanon is fully complete and ready for sale.

In the months ahead, we are likely to see a severe and unprecedented shock to the global economy as a result of the Covid-19 pandemic. As of April 2020, the situation is still unfolding with roughly 170 countries around the world in some form of lockdown in an effort to contain the spread of the virus. It is still too early to say what the final human and economic toll of the pandemic will be.

At Hayat, we have made efforts to ensure operational continuity in line with best practices. For our projects, we see further room to improve operations and we will continue to examine all possible routes for exit - particularly those that offer tax-optimized advantages.

Equity markets during the year appeared disconnected from economic reality in several markets. While most of the world experienced an economic slowdown, equity markets in general were buoyant largely due to accommodative policies followed by central banks. Developed markets (as measured by the MSCI World Index) returned +25.2% for the year, outperforming Emerging markets (MSCI Emerging Markets Index) which returned +15.4%. GCC markets on the other hand underperformed, collectively returning +5.9% (MSCI GCC Index).

I thank our stakeholders and employees for their efforts in building our company. I am particularly thankful to our valued shareholders for their continued support and confidence.



**Dr. Nabeel Al Mannaeh,**

**Chairman & CEO,**

## Financial Highlights

	KWD										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Net Profit/loss (KD)</b>	1,469,573	986,357	(1,430,234)	5,165,264	46,165,282	7,521,143	1,748,534	823,128	(17,964,803)	(6,704,965)	9,299
<b>Total Operating Income (KD)</b>	2,578,394	2,237,579	76,116	6,966,878	48,918,340	9,665,128	3,586,483	2,562,577	(16,002,483)	(5,211,196)	1,573,422
<b>Total Assets (KD)</b>	16,748,851	26,738,636	28,836,468	38,061,829	84,302,139	93,780,669	93,147,711	96,018,695	74,971,051	68,393,405	67,821,390
<b>Total Liabilities (KD)</b>	279,278	10,234,238	13,796,085	17,716,440	19,213,171	21,752,551	16,236,491	17,602,700	15,664,301	15,336,623	15,372,106
<b>Total Equity (KD)</b>	16,469,573	16,504,398	15,040,383	20,345,389	65,063,968	72,028,118	76,911,220	78,415,995	59,306,750	52,556,782	52,449,284
<b>Earning/loss per Share (Fils)</b>	9.80	6.58	(9.53)	34.44	307.77	50.14	11.66	5.49	(119.77)	(44.70)	0.06
<b>Book Value per Share (fils)</b>	109.8	110.0	100.3	135.6	433.8	480.2	512.7	522.8	395.4	350.4	349.7

# Management Report

## Introduction

Equity markets in general performed well in 2019, with developed markets (as measured by the MSCI World Index) returning +25.2% for the year, outperforming Emerging markets (MSCI Emerging Markets Index) which returned +15.4%.

US equity markets were the best performing major market during the year with the S&P 500 returning 28.9%. The major European markets also saw healthy returns led by France and Germany at 26.4% and 25.5%, respectively.

Equities were largely supported by Central Banks signaling that they would continue to support economic growth with stimulus measures. Towards the end of the year, markets were relieved that another round of US tariffs on Chinese goods that was scheduled for December 2019 was avoided with the signing of a phase one trade deal between the two countries. Additionally, manufacturing and service sector indicators in the US and Europe, although still weak, showed slight upticks helping to boost confidence that a recession was not imminent.

## Kuwait

GDP growth for FY2019 is expected to remain flat due to a 2.5% contraction in the oil sector, balanced by an expansion of the same size in the non-oil sector. Overall GDP growth in FY2020 is expected to rebound to +1.8% with growth in the oil and non-oil sectors of +1% and +2.5%, respectively.

Oil sector GDP, is expected to receive a boost firstly from rising output of Jurassic era gas and secondly from higher refined oil output as the Clean Fuels and Al Zour refinery projects come on stream in 2020-22. The non-oil sector is expected to benefit from continued high public spending and strong employment growth among nationals, which in turn is expected to support the consumer sector. Higher investment is also likely to take place in large planned projects in the power and petrochemicals sectors.

The national budget is likely to remain in deficit in the coming year on account of weak oil prices and high government spending. Inflation is expected to remain low at 1.5%, kept in check by modest economic growth, a slow recovery in housing rents and the absence of fresh subsidy cuts or indirect taxes in the short-term. Credit growth is estimated to have more than doubled in FY2019 to 4.9% on average versus 2.3% in the previous year, driven by a rebound in corporate lending from previously depressed levels. Net foreign capital inflows to Boursa Kuwait are estimated to have doubled to a record KDO.6 billion in FY2019 following recent reforms and the market upgrade to emerging market status.

## Kuwait Stock Exchange

Kuwait's All Share Index returned +23.7% in 2019 making it the best performer in the GCC for FY2019. These mark the best annual gains since FY2014. MSCI's upgrade of Kuwait to emerging market status in December is expected to lead to increased foreign inflows of passive and active funds. The reclassification is also likely to improve the visibility of capital markets and economy as more international research houses begin to track economic developments within Kuwait. It is estimated that the reclassification may bring in passive inflows of KD 0.75 billion to KD 2.3 billion as index funds increase their exposure to the Kuwaiti market. The first listing in Kuwait of a Public-Private Partnership project also took place during the year with the public offering of Shamal Azzour Al-Oula. The offering saw strong investor interest with a subscription rate of 127%. The company owns and operates Az-Zour North One Power and Water plant which currently supplies roughly 10% and 20% of Kuwait's power generation and water desalinization capacities, respectively.

Banking was the year's best performing sector, rising +35.7% for the year followed by Telecom at +25.8%. Technology was the year's worst performing sector with a sharp decline of -34.4% largely due to the fall in shares of Automated Systems Company (ASC). In terms of individual stocks, Kuwait Finance House was the year's biggest gainer at +46%, followed by National Bank of Kuwait at +34.7%.

End of year market capitalization for the KSE in FY2019 stood at KD 36.3 billion, an increase of 26% from the previous year. Both traded value and traded volume on the exchange nearly doubled over the previous year. Traded value for FY2019 stood at KD 7.9 billion vs. KD 4.1 billion in the previous year while traded volume for FY2019 stood at 39 billion shares vs. 21.4 billion shares in the previous year.

## GCC & MENA

GCC markets overall underperformed their developed and emerging market counterparts in FY2019. Kuwait and Bahrain were the best performers returning +23.7% and +20.4% for the year, respectively. Saudi Arabia recorded comparatively modest gains of +7.2% as investor sentiment was dampened by escalating tensions with Iran. Dubai, which was last year's worst performer posted gains of +9.3% while Qatar which was last year's best performer stayed nearly flat with a gain of +1.2%. Oman was the region's worst performer with returns of -7.9%.

In December, the Saudi market successfully concluded the IPO of Saudi Aramco, raising a combined USD 25.6 billion, making it the world's largest IPO to date.

## Global Economic review and outlook

The global economy saw a synchronized slowdown in FY2019. After a sharp slowdown in the previous year, global growth stabilized at a weak pace in the first half of FY2019. Trade tensions rose sharply

resulting in significant tariff increases between the United States and China that hurt business sentiment and confidence globally. These negatives were offset to an extent by accommodative monetary policy conditions in many countries.

Global growth for FY2019 is expected to be 3% (IMF forecast, Oct-19), sharply lower than the 3.8% growth seen in FY2017, and marking the slowest pace of growth seen since the global financial crisis. Emerging economies were largely affected by market specific factors while advanced economies were affected by structural factors such as low productivity and aging demographics.

### United States:

The US economy maintained momentum in the first half of the year. Although investment remained sluggish, employment and consumption were buoyant. Growth slowed down in the second half of the year, pulled down by weak business investment and manufacturing activity.

While strength in consumer spending and services is expected to persist into next year, the consensus view is for low to stable growth overall. A number of uncertainties also cloud the outlook, including earnings and the presidential election. Ongoing trade war ambiguity could further depress corporate confidence and investment.

Growth in 2019 is expected to be 2.4 percent, moderating to 2.1 percent in 2020. The projected moderation reflects an assumed shift in the fiscal stance from expansionary in 2019 to broadly neutral in 2020 as stimulus from the recently adopted two-year budget deal offsets the fading effects of the 2017 Tax Cuts and Jobs Act.

### Eurozone:

In the euro area, weaker growth in foreign demand and a drawdown of inventories, reflecting weak industrial production, have contained growth since mid-2018. Activity is expected to pick up only modestly over the remainder of this year, and into 2020, as external demand is projected to regain some momentum and temporary factors (including new emission standards that hit German car production) continue to fade.

Growth is projected at 1.2 percent in 2019 and 1.4 percent in 2020. The IMF has revised its 2019 forecast down slightly for France and Germany (due to weaker-than-expected external demand in the first half of the year). Both the 2019 and 2020 forecasts were marked down for Italy, owing to softening private consumption, a smaller fiscal impulse, and a weaker external environment. The outlook is also slightly weaker for Spain, with growth projected to slow gradually from 2.6 percent in 2018 to 2.2 percent in 2019 and 1.8 percent in 2020.

### United Kingdom:

The United Kingdom is set to expand at 1.2 percent in 2019 and 1.4 percent in 2020. These projections reflect the combination of a negative impact from weaker global growth and ongoing Brexit uncertainty as well as a positive impact from higher public spending announced in the recent Spending Review. The economy contracted in the second quarter, and narrowly avoided slipping into recession in the third quarter. The forecast assumes an orderly exit from the European Union followed by a gradual transition to the new regime.

### Japan:

Japan's economy is projected to grow by 0.9 percent in 2019. Strong private consumption and public spending in the first half of 2019 outweighed continued weakness in the external sector. Growth is projected at 0.5 percent in 2020, with temporary fiscal measures expected to cushion part of the anticipated decline in private consumption following the October 2019 increase in the consumption tax rate.

### China:

In China, the effects of escalating tariffs and weakening external demand have exacerbated the slowdown associated with the government's measures to rein in the accumulation of debt. With policy stimulus expected to continue supporting activity in the face of the adverse external shock, growth is forecast at 6.1 percent in 2019 and 5.8 percent in 2020.



## India:

India's economy is set to grow at 4.8 percent in 2019, picking up to 5.8 percent in 2020. The IMF lowered its previous (Oct-19) full year growth estimates for 2019 and 2020 by 1.3 and 0.9 percentage points respectively. The revised projections reflect a sharper than expected slowdown in local demand and stress in the non-bank financial sector. Growth in the coming year is likely to be supported by the lagged effects of monetary and fiscal stimulus measures, weak oil prices and government programs to support rural consumption. In its February 2020 Global outlook, Moody's said that India's economy has decelerated rapidly over the last two years and that it expects economic recovery to begin in the first quarter of 2020. It also said that with the weak economy and depressed credit growth reinforcing each other, any turnaround is likely to be slow.

## Middle East and Central Asia

Growth in the Middle East and Central Asia region is expected to be 0.9 percent in 2019, rising to 2.9 percent in 2020. The forecast is 0.9 and 0.4 percentage point lower, respectively, than the IMF's April 2019 estimates, largely due to the downward forecast revision for Iran (owing to the effect of tighter US sanctions) and Saudi Arabia. While non-oil growth is expected to strengthen in 2019 on higher government spending and confidence, oil GDP in Saudi Arabia is projected to decline against the backdrop of the extension of the OPEC+ agreement and a generally weak global oil market. The impact on growth of the recent attacks on Saudi Arabia's oil facilities adds uncertainty to the near-term outlook. Growth is projected to pick up in 2020 as oil GDP stabilizes and solid momentum in the non-oil sector continues. Civil strife in some other economies, including Libya, Syria, and Yemen, weigh on the region's outlook.

## Prospects for 2020

### Covid-19 Pandemic

As of April 2020, the Novel Coronavirus (COVID-19) has severely affected the global economy. Social distancing measures implemented to slow the spread of the virus have led to substantial slowdowns and economic contractions in many regions. Given that the virus is new, it remains uncertain as to what the final impact will be or how long its effects will last. Financial markets are likely to remain volatile in the interim period as news comes in. In April 2020, the IMF revised its global GDP growth forecasts for FY2020 sharply lower. Global GDP is now expected to contract -3% in FY2020 before sharply recovering to +5.8% in FY2021. The Fund's previous estimate as of January 2020, was for global GDP growth of +3.3% in FY2020 and +3.4% in 2021.

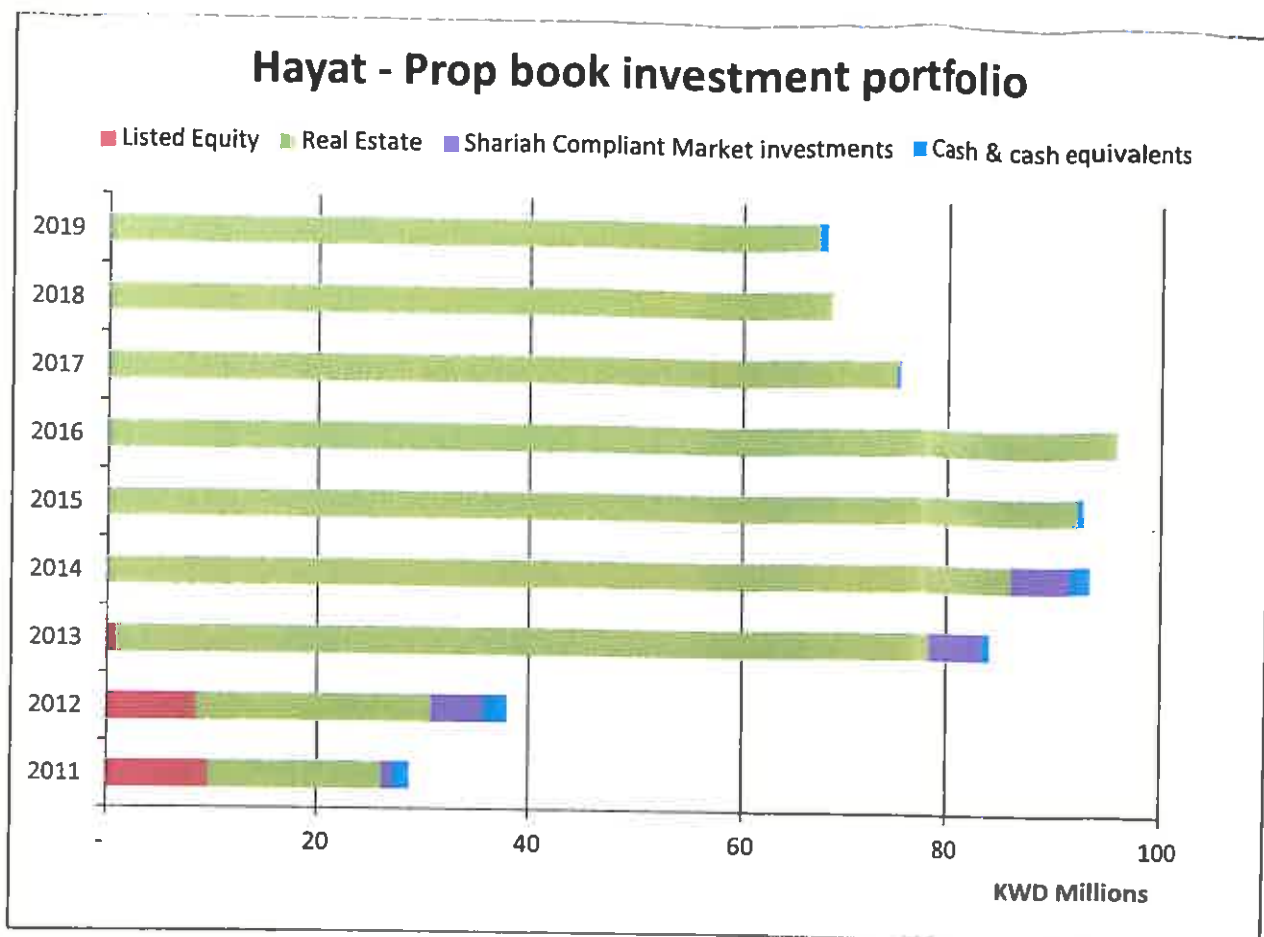
### Economic growth estimates

In FY2019, growth slowed for both Advanced and Developing economies. Advanced economies fared slightly better in relative terms with growth slowing to 1.7 percent in FY2019 from 2.2 percent the previous year. Developing economies saw a slightly sharper slowdown with growth of 3.7 percent in FY2019 versus 4.5 percent the previous year. The slowdown in growth primarily reflects negative surprises in a few emerging market economies, notably India, which led to a reassessment of weaker growth prospects over the next two years.

Global growth in FY2020 is projected to contract sharply by -3% due to the Covid-19 pandemic before recovering to +5.8% the following year. This projection assumes that the pandemic fades in the second half of FY2020 and that containment efforts can be gradually unwound. Advanced economies are expected to contract -6.1% in FY2020 before recovering +4.5% in FY2021. Developing economies are to contract -1% in FY2020 before recovering 6.6% in FY2021. Countries are expected to face multilayer challenges on top of a health crisis including external demand shocks and plunging commodity prices.

### Hayat in 2019

We continued to improve the operational status of our projects during the year. Occupancy at Al Nakhla compound reached approximately 95% as of year-end in terms of the number of units occupied. The Compound's tenant roster is of outstanding quality comprising well-known companies with long term contracts in the Kingdom. Sales for our projects in both Saudi Arabia and Lebanon were below expectations on account of continued market weakness in those countries.



## Listed Equity

Our existing investments are heavily skewed towards real estate projects. We foresee cash flows arising from these real estate projects from expected rentals and sales. These cash flows will be used to develop a balanced and diversified portfolio with the appropriate combination of different asset classes.

## Real Estate: Status of Existing Projects

### Hayat Real Estate Investment Company LLC

Al Nakhla Residential Compound is an ultra-modern luxury residential compound complex in Riyadh, Saudi Arabia. The compound spans an area of 259,796 square meters and is situated on Khalid Bin Al Waleed road next to SABIC's head office. Business Gate project and several leading universities and research centers such as Riyadh University, Princess Noura Bint Abdulrahman University and King Abdullah Center for Petrochemical Studies are in close proximity to the compound. The compound is fully constructed and currently being let out to tenants.

### Progress during 2019:

The Saudi economy and real estate market is slowly recovering. FY2019 saw the Kingdom continue to award and expand megaprojects across key sectors such as oil and gas, utilities and infrastructure. The Compound focuses on tenants employed in such sectors that are central to Vision 2030. New leases were signed with top-tier local and international companies bringing the Compound to near full occupancy as of year-end in terms of the number of units occupied (versus 85% occupancy at the beginning of the year). Al Nakhla continues to enjoy an excellent reputation in the market and has won the award for leading residential resort in the region (from World Travel Awards) for the third year running. Some proposals for project exits were discussed during the year but these yet have long road to cover.

### Hayat Luxury Villas Company LLC

Hayat Residential villa project is situated near the coast of northern Jeddah, Saudi Arabia. The project occupies an area of 32,209 square meters and is in close vicinity to both the Red Sea Mall (one of the largest malls in Jeddah) and King Abdul Aziz International airport.

### Progress during 2019:

As of year-end, out of 96 villa units in total, 44 units have been sold with the remaining 52 units available for sale. During FY2019, 19 units were sold out of which income was recognized only on 7 units for which the sale process was completed. Certain unit sales were cancelled during the year due to delayed payment from buyers and have been shown as reversed sales. Advances received on cancelled units were used to pay down outstanding balances on remaining units held by individual buyers.

We expect sales of approximately 10 units in the coming year with future sales taking place gradually from FY2021 onwards as the economy recovers. Any improvement in the general economy in the coming year should aid our sales and marketing efforts.

### Baabda

Project Description: Luxury multifamily residential apartment building in Baabda, Lebanon



## Progress during 2019:

Our multifamily residential apartment building in Baabda, Lebanon is fully constructed on a core and shell basis. In 2016, given market conditions, we changed our exit strategy from selling the project on a core and shell basis to selling as fully fitted-out apartments. Construction activity to finish the units was completed in 2017. With construction now fully complete, the project is now in the marketing phase. Due to the unstable economic and political environment in Lebanon in 2019, no units were sold during the year. We expect sales to remain muted in the coming year before picking up in FY2021.

## Return on Investments

- We made a profit of KD 9.3 thousand during the year as compared to a loss of KD 6.7 million in the previous year.
- The Company's operating profit for the year primarily stemmed from unit sales in Hayat Villas project, Jeddah and rental income from Al Nakhla Compound, Riyadh. A revaluation loss of KD 0.58 million was recognized for Hayat Residence, our project in Baabda, Lebanon.
- The Company's share of profit from project operations in Saudi Arabia for the year amounted to KD 2.09 million. The corresponding figure for the previous year was a loss of KD 5.68 million due to loss on revaluation.
- Fee and commissions income remain an insignificant income source (relative to our other operations) given low levels of client assets.

### Selected item heads from Consolidated Statement of Comprehensive Income

	FY2019	FY2018
Net investment income / (loss)	(523,725)	137,548
Share of profit / (loss) of equity-accounted investee	2,094,476	(5,679,513)
Fee and commission income	2,671	2,788
<b>Total Operating income / (loss)</b>	<b>1,573,422</b>	<b>(5,211,196)</b>
<b>Total operating expenses</b>	<b>(1,564,123)</b>	<b>(1,493,769)</b>
<b>Operating profit before provision for impairment</b>	<b>9,299</b>	<b>(6,704,965)</b>
Reversal / (Provision) for impairment	-	-
<b>Net profit</b>	<b>9,299</b>	<b>(6,704,965)</b>
<b>Total comprehensive income / (loss)</b>	<b>(107,498)</b>	<b>(6,735,100)</b>

### Consolidated Statement of Financial Position

	FY2019	FY2018
Cash and bank deposits	729,399	67,814
Available for sale investments	89,314	83,913
Investment properties	3,592,788	4,114,161
Investment in equity-accounted investees	60,249,325	58,276,999
Other assets	3,160,564	5,850,518
<b>Total assets</b>	<b>67,821,390</b>	<b>68,393,405</b>
Islamic finance payables	14,447,913	14,620,785
Other liabilities	924,193	1,215,838
<b>Total liabilities</b>	<b>15,372,106</b>	<b>15,836,623</b>
<b>Total equity</b>	<b>52,449,284</b>	<b>52,556,782</b>
<b>Total liabilities and equity</b>	<b>67,821,390</b>	<b>68,393,405</b>

## Hayat's Financial Product and Services

Hayat provides its clients with customized, Shariah compliant investment solutions. Our offerings are tailor made to address the individual risk-return profile of our clients. During 2019, we did not make any new investment.

## Portfolio & Wealth Management

Hayat offers customized wealth management services to clients in the form of discretionary and non-discretionary portfolio management services. Our portfolio management team develops an asset allocation plan, unique to each client and tailored to that client's specific investment needs and objectives. Special emphasis is placed on managing investment risks. Risk is first minimized through appropriate asset allocation and then further reduced through global diversification. Client information is updated at regular frequency and clients are provided with regular portfolio performance reviews and analysis.

At present, Hayat has a limited number of discretionary and/or non-discretionary clients. However, our plan for the coming year(s) includes expanding our clientele base for both listed equity and real estate investments. Our current client real estate investment portfolio currently focuses on the Indian and European real estate markets. For the year ahead, we will consider new opportunities for our clients in developed real estate markets, particularly in European real estate.

## Brokerage Services

Hayat's brokerage desk accesses global markets in a Shariah compliant way which implies screening out the non-Shariah compliant securities and trading & settling the trades in these countries on terms and conditions which are Shariah compliant. Our reach in brokerage encompasses all important markets- both in developing and emerging countries. The brokerage service presently is inactive which we intend activating after our diversification in asset base fructifies in coming years.

## Risk Management at Hayat

Risk reduction is a pillar of our investment decision making process. As an investment company, we are exposed to a number of diverse risks. For our investment portfolios, we monitor market risk parameters continuously with daily, weekly, monthly and quarterly reports guiding the investment managers to effectively control risks. Our quarterly reports go into more detail and measure performance on a risk adjusted basis. To control risk in our various non-listed investments (mostly real estate), the progress of every project is reviewed at every quarter. The investment risk reports review the ongoing progress of each project comparing actual percentage of completion with the planned time schedule to control delays and slippages. As a result, financial models are updated with the latest market inputs to analyze their impact on project IRR. A sensitivity analysis is also prepared in order to assess the impact on project IRR due to adverse movement in key variables. Furthermore, our projects are closely monitored through regular site visits and exchange of communication with developers and contractors.

In 2011, we established a separate Risk Department under the supervision of a dedicated Risk Manager. At a strategic level, the Risk Department designs processes, policies and procedures to identify and manage various types of risks relevant to the company. The Risk Manager reports to the Risk Management Committee (RMC) and is responsible for identifying, assessing and suggesting control measures for both the enterprise and investment portfolio.

Operating risk at Hayat is addressed at systems level. Our securities back office is system-linked with the accounting function and therefore this aspect of operating risk is controlled. Additionally, Hayat has prepared procedure manuals for its critical operations and adherence with these minimizes operating risks.

Internal Audit at Hayat is outsourced to a reputed firm who conducts audit on quarterly basis and gives its findings on every aspect of the business operations. This gives us additional comfort as feedback from audit reports not only confirm the robustness of existing risk management system but also helps in further enhancing its scope.

## Human Resources

Hayat believes that its employees are its most valuable asset. Our team of talented and seasoned professionals contributes a pivotal role in realizing the company's strategic goals and objectives.

To maintain and further enhance our competitive advantage over peers, Hayat recognizes the need to keep our human resources abreast with the today's challenging financial environment. To this end, Hayat believes in continuously improving job skills through various training courses. The combination of offering right compensation package, amicable and challenging work environment, improving job skills and an opportunity for growth have created a richly experienced and dynamic team that will ensure that the company achieves its goals.

Our staff comprises bright natives and skilled expatriates. This is spanned across various departments e.g. Investments, Operations, HR, legal, Finance & Administration, Compliance and Risk Management. Our employees have a credential basket of experience and qualifications such as CFA, FRM, MBA and various other accredited qualifications.

## Corporate Governance

Hayat's Board of directors believes that ensuring effective corporate governance is a continuous process and a critical factor in achieving business success. Hayat has a strong corporate governance framework and is fully compliant with the requirements of the Capital Markets Authority (CMA).

At present, our board comprises six directors, of which the majority (five) are non-executive (including one independent director). Three of them represent institutional shareholders. The presence of large institutional shareholders in itself ensures that corporate governance practices, prevalent at the level of institutions also translate into corporate practices of Hayat.

The board has three sub-committees: The Audit Committee, The Nomination & Remuneration Committee and the Risk Committee. These committees are constituted in line with CMA corporate governance guidelines and include independent members. Our internal audit function is outsourced to an international audit firm with expertise in internal audit and risk management.

When deciding on strategic and important issues, Hayat operates through discussions within various committees namely Executive Management Committee, Credit Committee and Asset Management Committee.

Hayat places significant emphasis on internal compliance procedures. The Financial Statements of the company are prepared in compliance with the guidelines of the International Accounting Standards and other statutory regulations. Reports to CBK and CMA are sent on fortnightly, monthly, quarterly and yearly basis. Hayat has been prompt and diligent in sending these reports without attracting any sanction.

## Our Plan for FY2020



Our plan for the coming year is to continue improving the operational efficiency of our projects while simultaneously exploring opportunities for exit.

We expect market conditions in Saudi Arabia and Lebanon to gradually improve in the coming year and beyond.

Any cash flows received in the coming year will be partially utilized towards reducing debt and the balance will be redeployed towards a portfolio that is diversified across asset classes and geography. One of our major goals is to rectify the existing regional and asset concentration in our portfolio. We plan to focus on three asset classes: Listed equity, private equity and real estate. Different geographies will be selected based on anticipated risk and return opportunities. Asset class weights will be subject to the availability of investment opportunities and may therefore diverge from any weights that we target for these asset classes.

After a significant run up in equity markets in the previous year, we expect buying opportunities in FY2020. As real estate markets recover around the region, we will actively analyze any opportunities as they arise.



التاريخ: 1441/06/18

الموافق: 2020/02/12

تقرير هيئة الرقابة الشرعية  
عن الفترة المالية 2019/01/01-2019/12/31

المحترمين

السادة / شركة حياة للإستثمار

السلام عليكم ورحمة الله وبركاته، وبعد:

وفقاً للسلطات المخولة لنا من قبل أعضاء الجمعية العمومية لشركة حياة للإستثمار وبموجب النظام الأساسي للشركة وتعليمات الجهات الرقابية ذات الصلة فإن هيئة الرقابة الشرعية تقدم تقريرها النهائي عن الفترة 2019/01/01 – 2019/12/31 وهو يتضمن أربعة بنود على النحو الآتي:-

أولاً : أعمال هيئة الرقابة الشرعية :

قامت هيئة الرقابة الشرعية بأعمالها والتي اشتملت على فحص الهياكل الإستثمارية وصيغ العقود والمنتجات والسياسات والإجراءات ، سواء بشكل مباشر أو بالتنسيق مع إدارة التدقيق الشرعي الداخلي من أجل الحصول على جميع المعلومات والتفسيرات التي اعتبرت ضرورية لتزويدها بأدلة تكفي لإعطاء تأكيدات معقولة بأن الشركة لم تخالف أحكام الشريعة الإسلامية في ضوء قرارات هيئة الرقابة الشرعية والمعايير الشرعية المعتمدة للشركة وقرارات الجهات الرقابية ذات الصلة .



## ثانياً : قرارات هيئة الرقابة الشرعية :

قامت هيئة الرقابة الشرعية للشركة بالرد على جميع استفسارات الشركة وأصدرت عدد ( 12 ) قراراً.

## ثالثاً : السياسات والإجراءات المعتمدة من قبل هيئة الرقابة الشرعية:

لم تقم هيئة الرقابة الشرعية للشركة بإعتماد أية سياسات وإجراءات لمنتجات و أنشطة للشركة.

## رابعاً : الرأي النهائي :

في رأينا وبعد دراسة جميع الإيضاحات والتأكيدات التي حصلنا عليها فإننا نعتقد :

1. أن العقود والعمليات والمعاملات التي أبرمتها الشركة خلال الفترة من 2019/01/01 إلى 2019/12/31 تمت وفقاً لأحكام الشريعة الإسلامية .

والحمد لله رب العالمين ،،

عضو هيئة الرقابة الشرعية  
د. علي إبراهيم الراشد

عضو هيئة الرقابة الشرعية  
د. عيسى زكي عيسى

رئيس هيئة الرقابة الشرعية  
أ.د. عبدالعزيز القصار



Date: 15/04/2020

## Hayat Invest Company

Subject: External Sharia Auditor's Report for the Financial  
Period 01/01/2019 – 31/12/2019

Greetings,

In accordance with the association contract signed with you, the External Sharia Audit Company oversees the company's business to ensure its compliance to the approved standards or the resolutions and advisory opinions issued by the Sharia Supervisory Board.

For more efficiency and effectiveness, the procedures for auditing the executive operations of Islamic financial institutions are carried out in accordance with our company's Sharia audit standards and based on the audit profession practice system that requires our planning and implementation of audit work to obtain reasonable assurances of the operational transactions' consistency of the Islamic financial institutions to the approved standards or the resolutions of the Sharia Supervision Board.

### Legal Representative and Sharia Auditor

Dhari Laith Al-Atiqi

Tel :00965 22960565  
Fax: 00965 22413369  
P.O.box: 957 Surra  
Code 45710  
E-mail: [da@tadqiq.com.kw](mailto:da@tadqiq.com.kw)  
[www.tadqiq.com.kw](http://www.tadqiq.com.kw)  
State of Kuwait

رأس المال المدفوع: ٢٥٠,٠٠٠ دك  
سجل التجاري ١١٦٨٦١





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### **Scope of Work:**

The scope of work is determined by the extent of Hayat Invest Company's commitment to implementing contracts and transactions in accordance with the resolutions of the Sharia Supervisory Board.

### **Responsibility of the Company:**

The responsibility of the company lies in the implementation of all its approved business in accordance with the provisions of Islamic Sharia by the Management.

### **Responsibility of the External Sharia Audit:**

Our responsibility is limited to expressing an independent opinion on the extent to which the company's transactions and activities are in conformity with the provisions of the Islamic Sharia Board in accordance with the resolutions of the Company's Sharia Board.



## Tasks of the External Sharia Audit

**We have planned the External Sharia Audit, and to achieve the required work, we have:**

- Examined the scopes of audit.
- Established the audit method policy (Sample/ Comprehensive) according to the type of scope.
- Perused the transactions of the securities examined.
- The authorities responsible for the person authorized to conduct the examined transactions and the stages of their completion.
- The terms of reference for such transactions (approved standards, Sharia Supervisory Board resolutions).
- Established legal solutions to violations - if any - whether in financial transactions or the implementation thereof.
- Field visits, correspondence etc. according to the schedules and forms prepared in this respect.
- The audit procedures that led to the results of its work mentioned in the report.
- Perused the internal Sharia report.
- Perused the approved contracts and transactions
- Coordinated with the entities responsible for conducting transactions through all means of communication.
- Signature of Sharia auditor and legal representative.



**The responsible entities in the person authorized to conduct the examined transactions and the stages of their completion:**

- Direct Investment Management
- Financial Management

**Areas audited:**

We have perused and reviewed:

- Internal Sharia audit report.
- Sharia Supervisory Board Report.
- Financial statements and their annexes.
- Accounts opened with banks.
- The invested activities.
- Securities dealings.
- Dividends.
- Executed contracts, namely ( 12 ).

We have also communicated with the company's management and field visits ( 2 ) during the period mentioned on 30/09/2019 - 28/01/2020.

We have obtained explanations and acknowledgments that provided us with evidence sufficient to give reasonable assurance of the extent to which the company's transactions, activities and securities transactions are in compliance with the resolutions of the company's Sharia Supervisory Board, which we believe that our audit provides an appropriate basis for our opinion.



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### Final Opinion:

Based on the results of the audit work, the financial transactions and operations that were examined and reviewed were in accordance with the provisions of Islamic Sharia for these actions.

Based on the results of the audit, the financial transactions and operations that were examined and reviewed were in accordance with the provisions of Islamic Sharia for these actions.

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[www.tadqiq.com.kw](http://www.tadqiq.com.kw)  
State of Kuwait

راس المال المدفوع: ٢٥٠,٠٠٠ د.ك  
سجل التجاري ١١٦٨٦١



**Hayat Invest Company K.S.C. (Closed) and its subsidiary  
State of Kuwait**

**HAYAT INVEST**

The logo for Hayat Invest features the company name in a bold, sans-serif font. A red, curved line is positioned below the letters 'A' and 'T' in 'HAYAT', resembling a stylized smile or a rising arc.

**Consolidated Financial Statements and Independent Auditor's Report  
for the year ended 31 December 2019**

**Hayat Invest Company K.S.C. (Closed) and its subsidiary  
State of Kuwait**

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P.O. Box 24, Safat 13001  
State of Kuwait  
Tel: +965 2228 7000  
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## Independent auditor's report

The Shareholders  
Hayat Invest Company K.S.C. (Closed)  
State of Kuwait

### Opinion

We have audited the consolidated financial statements of Hayat Invest Company K.S.C. (Closed) ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

### 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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors' report but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 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 IFRS as adopted for use by the State of Kuwait, 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 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

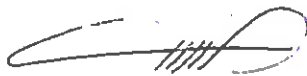
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

**Report on Other Legal and Regulatory Requirements**

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts. We have not become aware of any violations of the provisions of the Companies Law No.1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum of Incorporation and Articles of Association during the year ended 31 December 2019 that might have had a material effect on the business of the Company or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, or of Law No. 7 of 2010, as amended, concerning the Capital Markets Authority, and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business of the Company or on its consolidated financial position.



Dr. Rasheed M. Al-Qenae  
License No. 130 "A"  
KPMG Safi Al-Mutawa & Partners  
Member firm of KPMG International

Kuwait: 3 May 2020

Consolidated statement of financial position  
as at 31 December 2019

	Note	2019 KD	2018 KD
<b>Assets</b>			
Cash and cash equivalents	7	456,010	67,814
Time deposits		273,389	-
Financial assets at fair value through other comprehensive income		89,314	83,913
Investment properties	8	3,592,788	4,114,161
Equity-accounted investees	9	60,249,325	58,276,999
Other assets	10	3,160,564	5,850,518
<b>Total assets</b>		<b>67,821,390</b>	<b>68,393,405</b>
<b>Liabilities</b>			
Islamic finance payables	11	14,447,913	14,620,785
Other liabilities	12	924,193	1,215,838
<b>Total liabilities</b>		<b>15,372,106</b>	<b>15,836,623</b>
<b>Equity</b>			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	6,495,552	6,494,622
Voluntary reserve	15	6,495,552	6,494,622
Translation reserve		5,061,526	5,183,724
Fair value reserve		(820)	(6,221)
Retained earnings		19,397,474	19,390,035
<b>Total equity</b>		<b>52,449,284</b>	<b>52,556,782</b>
<b>Total liabilities and equity</b>		<b>67,821,390</b>	<b>68,393,405</b>

The accompanying notes form an integral part of these consolidated financial statements.

Dr. Nabeel A. Al-Mannaie  
Chairman & CEO



**Consolidated statement of profit or loss and other comprehensive income**  
*for the year ended 31 December 2019*

	Note	2019 KD	2018 KD
Net investment (loss) / income	17	(523,725)	137,548
Fee and commission income	23	2,671	2,788
Share of profit / (loss) of equity-accounted investees	9	2,094,476	(5,679,513)
Reclassification of foreign currency translation difference on liquidation of a subsidiary	19	-	327,981
<b>Total operating profit / (loss)</b>		<u>1,573,422</u>	<u>(5,211,196)</u>
<b>Operating expenses and other charges</b>			
Staff costs		(493,525)	(508,447)
Depreciation and amortization		(49,203)	(1,899)
Finance cost		(898,430)	(811,256)
Other expenses	18	(122,965)	(172,167)
<b>Total operating expenses and other charges</b>		<u>(1,564,123)</u>	<u>(1,493,769)</u>
<b>Profit / (loss) for the year before board of directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat</b>		9,299	(6,704,965)
Board of Directors' remuneration		-	-
KFAS		-	-
Zakat		-	-
<b>Net profit / (loss) for the year</b>		<u>9,299</u>	<u>(6,704,965)</u>
<b>Other comprehensive income for the year</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Changes in fair value of financial assets at fair value through other comprehensive income		5,401	8,627
		<u>5,401</u>	<u>8,627</u>
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Reclassification of foreign currency translation difference on liquidation of a subsidiary		-	(327,981)
Foreign currency translation differences		(122,198)	289,199
		<u>(122,198)</u>	<u>(38,782)</u>
<b>Other comprehensive loss for the year</b>		<u>(116,797)</u>	<u>(30,155)</u>
<b>Total comprehensive loss for the year</b>		<u>(107,498)</u>	<u>(6,735,120)</u>
<b>Basic and diluted profit / (loss) per share (fils)</b>	20	<u>0.06</u>	<u>(44.70)</u>

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity  
for the year ended 31 December 2019

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Translation reserve KD	Fair value reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2018	15,000,000	6,494,622	6,494,622	5,222,506	-	26,095,000	59,306,750
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(14,848)	-	(14,848)
Balance as at 1 January 2018 after IFRS 9 transition	15,000,000	6,494,622	6,494,622	5,222,506	(14,848)	26,095,000	59,291,902
Total comprehensive loss for the year	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	(6,704,965)	(6,704,965)
Other comprehensive loss for the year	-	-	-	(38,782)	8,627	-	(30,155)
Total comprehensive loss for the year	-	-	-	(38,782)	8,627	(6,704,965)	(6,735,120)
Balance at 31 December 2018	15,000,000	6,494,622	6,494,622	5,183,724	(6,221)	19,390,035	52,556,782
Balance at 1 January 2019	15,000,000	6,494,622	6,494,622	5,183,724	(6,221)	19,390,035	52,556,782
Total comprehensive loss for the year	-	-	-	-	-	9,299	9,299
Net profit for the year	-	-	-	-	-	9,299	9,299
Other comprehensive loss for the year	-	-	-	(122,198)	5,401	-	(116,797)
Total comprehensive loss for the year	-	-	-	(122,198)	5,401	9,299	(107,498)
Transfer to reserves (note 14& 15)	-	930	930	-	-	(1,860)	-
Balance at 31 December 2019	15,000,000	6,495,552	6,495,552	5,061,526	(820)	19,397,474	52,449,284

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of cash flows**  
*for the year ended 31 December 2019*

	Note	2019 KD	2018 KD
<b>Cash flows from operating activities</b>			
Net profit / (loss) for the year		9,299	(6,704,965)
<i>Adjustments for:</i>			
Depreciation and amortization		49,203	1,899
Share of (profit) / loss of equity-accounted investees	9	(2,094,476)	5,679,513
Reclassification of foreign currency translation differences on liquidation of a subsidiary		-	(327,981)
Accrued profit from time deposits		(8,879)	-
Change in fair value of investment properties	17	584,331	307,990
Finance cost		898,430	811,256
Provision for employees' end of service indemnity		72,956	58,343
		<u>(489,136)</u>	<u>(173,945)</u>
<i>Changes in:</i>			
Other assets		2,649,630	626,682
Other liabilities		(303,291)	(292,335)
<b>Cash flows from operations</b>		<u>1,857,203</u>	<u>160,402</u>
Payment of employees' end of service indemnity		(17,015)	-
<b>Net cash flows generated from operating activities</b>		<u>1,840,188</u>	<u>160,402</u>
<b>Cash flows from investing activities</b>			
Change in time deposits		(273,389)	-
Additions to investment properties	8	(62,958)	(13,325)
<b>Net cash flows used in investing activities</b>		<u>(336,347)</u>	<u>(13,325)</u>
<b>Cash flows from financing activities</b>			
Repayment of Islamic finance payables		(1,059,868)	(428,164)
Payment of lease liabilities		(55,777)	-
<b>Net cash flows used in financing activities</b>		<u>(1,115,645)</u>	<u>(428,164)</u>
<b>Net change in cash and cash equivalents</b>		388,196	(281,087)
Cash and cash equivalents at 1 January		67,814	348,901
<b>Cash and cash equivalents at 31 December</b>	7	<u>456,010</u>	<u>67,814</u>

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements  
for the year ended 31 December 2019

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**1. Reporting entity**

Hayat Invest Company K.S.C. (Closed) (“the Company”) is a closed Kuwaiti shareholding company incorporated in the State of Kuwait on 21 December 2008. The Company was registered as an investment company with the Central Bank of Kuwait (“the CBK”) on 17 February 2009 and is regulated by the Capital Markets Authority under Law No. 7 of 2010 regarding the establishment of the Capital Markets Authority and regulating securities activities, as amended, and its Executive Regulations.

The Company was registered with the commercial register of the Ministry of Commerce and Industry on 30 December 2008 under registration number 330034.

The registered address of the Company is Al Jon Tower – 11<sup>th</sup> & 12<sup>th</sup> Floors, Fahad Al Salem Street, State of Kuwait.

The Company is primarily engaged in investment activities and carries its operations as per the Articles of Association and Memorandum of Incorporation and guidelines of noble Islamic Shari’a. The objectives of the Company are as follows:

- Investment in the commercial, real estate, industrial, agricultural, services sectors through participation in new ventures, equities or sukuks in these companies;
- Manage assets for institutions, private and public investment authorities, individuals and invest these assets in various sectors through equities funds and real estate;
- Prepare feasibility studies, valuation and due diligence reports as well as private placement memorandums;
- Act as intermediary in Shari’a compliance transactions;
- Act as the placement manager to equity, fund and sukuk issued by investment authorities both public and private;
- Act as intermediary in foreign commercial transactions;
- Provide intermediation in finance activities whether for local or international clients, across various sectors, in accordance to rules and regulations of the CBK and in accordance to Islamic Shari’a principles;
- Deal and trade in foreign exchange, commodities, industrial metals and other assets in local and international markets;
- Carry out all types of transactions relating to trade and custody of securities including sale and purchase of securities and sukuk issued by companies and institutions, public and private, locally and domestically;
- Acquire industrial property rights, patents, trademarks, trade drawings, intellectual property rights and leasing of such rights to third parties;
- Manage portfolios, investments and seek capital growth through commercial transaction for its own accounts and for its clients in accordance with the governing laws;
- Invest the Company’s assets in various asset classes as approved by the CBK, primarily in Islamic finance;
- Promote investment funds for itself and for other parties and offer these funds for placements as well as acting as the investment trustee or manager for these funds both locally and internationally, in accordance with the rules and regulations in place; and
- Carry out any other activity to develop and support the financial and money market in the State of Kuwait.

The consolidated financial statements comprise of Hayat Invest Company K.S.C. (Closed) and its subsidiary (together referred to as “the Group” and individually as “Group entity”) and the Group’s interest in jointly controlled entities.

Notes to the consolidated financial statements  
for the year ended 31 December 2019

Details of the Group entity and the jointly controlled entities as at 31 December 2019 are as follows:

Name of the company	Country of incorporation	Ownership interest		Principal activities
		2019	2018	
<b>Jointly controlled entities</b>				
Hayat Real Estate Investment Company L.L.C.	Saudi Arabia	50%	50%	Real Estate
Hayat Villas Company L.L.C.	Saudi Arabia	50%	50%	Real Estate
<b>Subsidiary</b>				
Hayat Construction SAL	Lebanon	100%	100%	Construction

On 9 May 2019, the Annual General Assembly of the shareholders approved the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018. No dividends were declared by the Group.

The consolidated financial statements were approved for issue by the Board of Directors of the Company on 23 April 2020 and are subject to the approval of the Annual General Assembly of the shareholders which has the power to amend these consolidated financial statements after issuance.

2. **Basis of preparation**

a) Basis of accounting

The consolidated financial statements have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") except for the measurement and disclosure requirements of expected credit losses ("ECL") on financing facilities under IFRS 9, *Financial Instruments*. Accordingly, provision for credit losses on financing facilities is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions as described below.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In addition, in accordance with the CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which the CBK instructions are applicable and not subject to specific provision, is made.

In addition, the consolidated financial statements also comply with the relevant provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Articles of Association and Memorandum of Incorporation and Ministerial Order No. 18 of 1990.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost or amortised cost basis, except for financial assets at fair value through other comprehensive income and investment properties, which are measured at fair value.

Notes to the consolidated financial statements  
for the year ended 31 December 2019

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c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Group.

d) Use of estimates and judgments

In preparing these consolidated financial statements management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3 and 4 (e) – Leases;
- Note 4 (e) – Intangible assets and property and equipment;
- Note 4 (i) and 4 (j) – Impairment; and
- Note 4 (m) – Provisions.

3. **Changes in significant accounting policies**

IFRS 16, *Leases*

The Group has applied IFRS 16, *Leases* with a date of initial application from 1 January 2020. The standard introduces a single, on-balance sheet lease accounting model for lessees. As a result, the Group, as a lessee, has recognised a right-of-use assets representing its right to use the underlying assets and a lease liabilities representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated and it is presented, as previously reported, under IAS 17, *Leases* and related interpretations. The details of the changes in accounting policies are set out below.

a. *Definition of lease*

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining Whether an Arrangement contains a Lease*.

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

b. *As a lessee*

The Group leases properties comprising of office spaces and vehicles.

**Notes to the consolidated financial statements**  
*for the year ended 31 December 2019*

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As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases that are on balance sheet.

The Group recognizes right-of-use assets and a lease liabilities at the lease commencement date. The right-of-use assets is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the finance cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in discount rate or a change in the estimate of the amount expected to be payable, or as appropriate, changes in the assessment of whether an extension option is reasonably certain to be exercised or termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

*c. As a lessor*

As at the reporting date, the Group has not entered into any contracts in which it is a lessor.

*d. Transition*

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of two to four years. Some leases include an option to renew the lease for an additional period.

At transition, for leases classified as operating lease under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The Group has measured the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Excluded initial direct costs from measuring the right-of-use assets at the date of initial applicable; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.



Notes to the consolidated financial statements  
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*e. Impact on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

	1 January 2019 KD
Right-of-use assets	<u>195,995</u>
<i>Liabilities</i>	
Lease liabilities	<u>195,995</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The rate applied is 6.5%.

	KD
Operating lease commitment at 31 December 2018 (office spaces and vehicles)	-
Discounted using the incremental borrowing rate at 1 January 2019 (office spaces and vehicles)	-
Extension options reasonably certain to be exercised	195,995
Lease liabilities recognised at 1 January 2019	<u>195,995</u>

*f. Impact for the year*

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the year:

	Right-of- use assets KD	Lease Liabilities KD
As at 1 January 2019	195,995	195,995
Depreciation expense	(48,999)	-
Finance cost	-	11,434
Lease payments during the year	-	(55,777)
As at 31 December 2019	<u>146,996</u>	<u>151,652</u>

Notes to the consolidated financial statements  
for the year ended 31 December 2019

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4. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these annual consolidated financial statements, except as set out in note 3.

a) Basis of consolidation

i. *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in the consolidated statement of profit or loss and other comprehensive income.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

ii. *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of the subsidiary is consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

iii. *Loss of control*

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements  
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If the Group retains any interest in the previously owned subsidiary, then such interest is measured at fair value at the date the control is lost. The difference between the carrying amount and the fair value of remaining investment retained in the former subsidiary is recognized in the consolidated statement of profit or loss and other comprehensive income. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

*iv. Investment in equity-accounted investees*

The Group's interests in equity-accounted investees comprise of interests in joint ventures. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investment in a joint venture is accounted for using the equity method and is recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investee, until the date on which joint control ceases.

*v. Transactions eliminated on consolidation*

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Cash and cash equivalents

Cash and bank balances comprise of cash balances and time deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

c) Time deposits with banks

Time deposits with banks comprises the deposits made in banks with original maturities less than one year from the acquisition date.

d) Investment property

Investment property is property, held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property under construction is recognized initially at cost and remeasured subsequently at fair value. Changes in fair value is recognized in the consolidated statement of profit or loss and other comprehensive income. Changes in the carrying amount of investment property under construction in any given period will include additions recognized at cost and changes in the fair value of the property.

Notes to the consolidated financial statements  
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e) Other assets

(i) *Intangible assets*

*Recognition and measurement*

Intangible assets represent computer software licenses. Software licenses acquired by the Group are stated at cost less accumulated amortization and any impairment losses (note 4(j)).

*Subsequent expenditure*

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in consolidated statement of profit or loss and other comprehensive income as incurred.

*Amortization*

Amortization is recognized in the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the estimated useful lives of the software licenses from the date they are available for use. The estimated useful life of computer software licenses is three years.

(ii) *Property and equipment*

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (4(j)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or losses on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised on a net basis within other income in the consolidated statement of profit or loss and other comprehensive income.

*Depreciation*

Items of property and equipment are depreciated from the date they are ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using a straight-line basis over their estimated useful lives.

Depreciation is recognized in the consolidated statement of profit or loss and other comprehensive income. The estimated useful lives of significant items of property and equipment are as follows:

Office furniture and decorations	5 years
Office equipment	5 years
Computers	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate at each reporting date to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment. A change in the estimated useful life of property and equipment is applied at the beginning of the period of change with no retrospective effect.

Notes to the consolidated financial statements  
for the year ended 31 December 2019

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(iii) Leases

*Policy applicable from 1 January 2019*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

*As a lessee*

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the consolidated financial statements  
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When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of profit or loss and other comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

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

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below \$ 5,000). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

*Policy applicable before 1 January 2019*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payment made under operating leases were charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

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

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

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

f) Islamic finance payables

(i) *Murabaha*

Murabaha payables represent the amount payable on a deferred settlement basis for assets purchased under murabaha agreements. Murabaha payables are stated at the net amount of the payable. Profit payable is expensed on a time proportion basis taking account of the profit rate attributable and the balance outstanding. Finance cost is recognized in the consolidated statement of profit or loss and other comprehensive income as an expense.

(ii) *Wakala*

Wakala payables comprise of amounts invested by third parties under wakala arrangements for onward deals by the Group in various Islamic investment products.

Wakala payables are recognized initially at cost and are subsequently carried at amortised cost using the effective profit rate method.

Notes to the consolidated financial statements  
for the year ended 31 December 2019

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g) Other liabilities

Other liabilities are stated at amortized cost.

h) Revenue recognition

*Islamic finance income*

Income from wakala contracts is recognized on a time proportion basis, taking into account the principal amount outstanding and the applicable rates of expected profit using the effective profit rate method.

*Fees and commission income*

Fees and commission income represents asset management fees earned by the Group on fiduciary activities. Fees and commission income are recognized on an accrual basis.

*Dividend income*

Dividend income is recognized when the right to receive the dividend is established.

i) Financial instruments

*i. Classification and measurement of financial assets*

The classification of financial assets under IFRS 9 is generally based on the Group's business model in which a financial asset is managed and its contractual cash flow characteristics.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- Financial assets carried at amortised cost;
- Financial assets carried at fair value through other comprehensive income ("FVOCI"); or
- Financial assets carried at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

*Financial assets carried at amortised cost*

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

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective profit rate method. The amortised cost is reduced by impairment losses.



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Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit of loss and other comprehensive income. Any gain or loss on derecognition is recognised in the consolidated statement of profit of loss and other comprehensive income.

Cash at banks, time deposits, receivables and other assets are classified as financial assets carried at amortised cost.

*(a) Business model assessment*

The Group makes an assessment of the objective of the business model in which a financial asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- Stated policies and objectives for the financial assets and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual profit income, matching the duration of the financial assets to the duration of the expected cash outflows or realising cash flows through the sale/derecognition of assets;
- How the performance of the financial assets is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

*(b) The Solely payments of principal and profit test*

For the purpose of this assessment, principal is defined as the fair value of the financial asset at initial recognition. Profit is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contain a contractual term that could change in the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

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A prepayment feature is consistent with the solely payments of principal and profit criterion if the prepayment amount substantially represents unpaid amounts of principal and profit on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual profit (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

*Financial assets carried at fair value through other comprehensive income*

Upon initial recognition, the Group makes an irrevocable election to classify its equity investments as equity investments at FVOCI if they meet the definition of equity under IAS 32, *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair value including foreign exchange component are recognized in other comprehensive income and presented in the cumulative changes in fair value as part of equity. Cumulative gains and losses previously recognized in other comprehensive income are transferred to retained earnings on derecognition and are not recognized in the consolidated statement of profit or loss and other comprehensive income. Dividend income on equity investments at FVOCI is recognized in the consolidated statement of profit or loss and other comprehensive income unless it clearly represents a recovery of part of the cost of the investment in which case it is recognized in other comprehensive income.

Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

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

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

Debt investments at FVOCI are subsequently measured at fair value. Profit income calculated using the effective profit rate method, foreign exchange gains or losses and impairment are recognised on in consolidated statement of profit or loss and other comprehensive income. Other net gains or losses are recognized in other comprehensive income.

On derecognition, gains or losses accumulated in other comprehensive income are classified to consolidated statement of profit or loss and other comprehensive income.

*i. Financial liabilities*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any finance cost, are recognised in consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements  
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Other financial liabilities are subsequently measured at amortised cost using the effective profit rate method. Finance costs and foreign exchange gains and losses are recognised in consolidated statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in consolidated statement of profit or loss and other comprehensive income.

*ii. Derecognition*

*Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

*Financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the consolidated statement profit or loss and other comprehensive income.

*iii. Offsetting*

Financial assets and financial liabilities are offset and the net amounts reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

*iv. Impairment of financial assets*

*Expected Credit Losses (" ECL")*

The Group applies the expected credit loss model to cash at banks, time deposits, receivables and due from related parties.

The Group applies a three-stage approach to measuring ECL:

**Stage 1: 12 months ECL**

For exposures where there has been no significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

**Stage 2: Lifetime ECL – not credit impaired**

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

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Stage 3: Lifetime ECL – credit impaired

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

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of loans and advances by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

*Measurement of ECL*

ECL is probability weighted estimates of credit loss and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include:

- Probability of default ("PD");
- Loss Given default ("LGD"); and
- Exposure at default ("EAD")

ECL for financial assets in Stage 1 is calculated by multiplying the 12 months PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD is derived mainly through collecting performance and default information about credit risk exposures in credit risk grades. LGD is the magnitude of the likely loss if there is a default, based on the history of recovery rates of claims against defaulted counter parties considering structure and counter party industry. EAD of a financial asset is its gross carrying value at the time of default.

j) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Notes to the consolidated financial statements  
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Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Foreign currency

*Foreign currency translation*

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Kuwait Dinars at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to Kuwait Dinars at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in the consolidated statement of profit or loss and other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

*Foreign operations*

The assets and liabilities of foreign operations are translated into KD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into KD at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve in equity.

When a foreign operation is disposed of in its entirety or partially such that control, is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income and accumulated in the translation reserve in equity.

l) Employees' benefits

Employees are entitled to an end of service indemnity payable under the Kuwait Labour Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances.

Pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to the consolidated statement of profit or loss and other comprehensive income in the year to which they relate.

**Notes to the consolidated financial statements**  
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m) Provisions

A provision is recognised 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n) Fiduciary assets

Assets held in a trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position but are disclosed in the notes to the consolidated financial statements.

**5. Standards issued but not yet effective**

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17, Insurance Contracts.

**6. Determination of fair value**

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Equity securities*

The Group measures the fair value of equity securities using the quoted price in an active market at the reporting date, or if unquoted, the Group uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

*Measurement of ECL*

The measurement of ECL on financial assets involves complex estimations. ECL is the probability weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.



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Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time.

*Other non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market rate of profit at the reporting date.

**7. Cash and cash equivalents**

	2019 KD	2018 KD
Cash on hand	500	576
Cash at banks	60,510	67,238
Term deposits with original maturities of less than three months	395,000	-
	<u>456,010</u>	<u>67,814</u>

Term deposits represent deposits with local financial institutions with effective profit rate of 2.94% per annum.

**8. Investment properties**

	2019 KD	2018 KD
Balance at 1 January	4,114,161	4,408,826
Additions to investment properties	62,958	13,325
Change in fair value of investment properties (note 17)	<u>(584,331)</u>	<u>(307,990)</u>
Carrying amount at 31 December	<u>3,592,788</u>	<u>4,114,161</u>

The fair value of investment properties is determined based on the lower of two valuations performed as at 31 December 2019 and 2018 by accredited independent valuers, who are the industry specialists in valuing this type of investment property.

The fair value measurement for investment properties has been categorised under Level 3 based on the inputs to the valuation techniques used. For the purpose of measuring fair value, the replacement principle has been used by the valuers which reflects the current market expectations about the future estimated replacement cost in the country in which the investment properties are located.



Notes to the consolidated financial statements  
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9. Equity-accounted investees

The Group has interest in two joint ventures, both of which are equity accounted.

	Hayat Real Estate Investment Company L.L.C.	Hayat Villas Company L.L.C.
Principal activities	Real estate	Real estate
Ownership	50%	50%
Principal place of business or country of incorporation	Saudi Arabia	Saudi Arabia

Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C. are established as separate entities and the Group has 50% ownership in respective companies. Accordingly, the Group has classified its interest in Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C. as joint ventures.

In accordance with the agreement under which Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C. are established, the Group and the other investor in the joint venture have agreed to make 50% contribution each and to undertake any decisions jointly.

The following table summarizes the financial information of Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C. The table also reconciles the summarized financial information to the carrying amount of the Group's interest in Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C.

	Hayat Real Estate Investment Company L.L.C.		Hayat Villas Company L.L.C.	
	2019 KD	2018 KD	2019 KD	2018 KD
Non-current assets	177,279,461	176,195,095	-	-
Current assets	6,195,060	9,322,043	11,764,931	16,623,391
Non-current liabilities	(53,665,512)	(53,709,946)	(3,975,372)	(12,790,127)
Current liabilities	(14,562,853)	(18,065,435)	(2,537,065)	(1,021,024)
Net assets	115,246,156	113,741,757	5,252,494	2,812,240
Group's share of net assets	57,623,078	56,870,879	2,626,247	1,406,120
Carrying amount of interest in joint venture	57,623,078	56,870,879	2,626,247	1,406,120
Revenue	16,151,736	(3,460,818)	9,930,313	624,144
Operating expenses	(14,467,314)	(7,869,792)	(7,425,783)	(652,559)
Total comprehensive income / (loss)	1,684,422	(11,330,610)	2,504,530	(28,415)
Group's share of total comprehensive income / (loss)*	842,211	(5,665,305)	1,252,265	(14,208)

Notes to the consolidated financial statements  
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<b>Movement in Group's share of interest in net assets of equity-accounted investees</b>				
Carrying amount at 1 January	56,870,879	62,230,987	1,406,120	1,413,104
Group's share of total comprehensive income / (loss)	842,211	(5,665,305)	1,252,265	(14,208)
Foreign exchange impact	(90,012)	305,197	(32,138)	7,224
Carrying amount at 31 December	<u>57,623,078</u>	<u>56,870,879</u>	<u>2,626,247</u>	<u>1,406,120</u>

\* Group's share of total comprehensive income / (loss) for the year ended 31 December 2019 includes an amount of KD 1,793,625 representing share of loss in Hayat Villas Company L.L.C. related to the year ended 31 December 2018.

**10. Other assets**

	2019 KD	2018 KD
Prepayments	37,420	55,783
Receivables	23,635	5,340
Due from related parties (note 16)	2,951,980	5,788,658
Right-of-use assets	146,996	-
Property and equipment	533	737
	<u>3,160,564</u>	<u>5,850,518</u>

**11. Islamic finance payables**

	2019 KD	2018 KD
Murabaha	11,725,675	12,073,839
Wakala	2,722,238	2,546,946
	<u>14,447,913</u>	<u>14,620,785</u>

The effective profit rate on Islamic finance payables ranges from 6% to 6.75% per annum (2018: 5.25% to 6.75% per annum). The maturity of Islamic finance payables is disclosed in note 25.

**12. Other liabilities**

	2019 KD	2018 KD
Zakat payable	9,027	9,027
KFAS payable	7,557	7,557
Provision for staff employment benefits	724,332	773,182
Other payables	183,277	426,072
	<u>924,193</u>	<u>1,215,838</u>

Notes to the consolidated financial statements  
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**13. Share capital**

The Company's authorized, issued and fully paid up share capital in cash amounts to KD 15,000,000 (2018: KD 15,000,000) comprising of 150,000,000 (2018: 150,000,000) shares of 100 fils each.

**14. Statutory reserve**

In accordance with the Companies Law No.1 of 2016, as amended, and the Company's Articles of Association, 10% of the net profit for the year before contribution to KFAS, Zakat and Directors' remuneration is required transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend.

The Company transferred an amount of KD 930 for the year ended 31 December 2019 (2018: nil).

**15. Voluntary reserve**

In accordance with the Company's Articles of Association, 10% of the net profit for the year is transferred to the voluntary reserve based on a resolution of the shareholders upon the management recommendation.

The Company transferred an amount of KD 930 for the year ended 31 December 2019 (2018: nil).

**16. Related party balances and transactions**

Related parties represent major shareholders, Directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

*i) Consolidated statement of financial position*

	2019 KD	2018 KD
<b>Due from related parties</b>		
<i>Jointly controlled entities</i>		
Other assets	2,951,980	5,788,658
<b>Due to related parties</b>		
<i>Shareholders and related to shareholders</i>		
Islamic finance payables	14,249,827	14,091,922
Accrued profit on Islamic finance payables	198,086	528,863
	<u>14,447,913</u>	<u>14,620,785</u>
Bank balances	448,472	57,114
Time deposits	273,389	-
Accrued profit on time deposits	8,879	-
Other liabilities	-	382,827

Notes to the consolidated financial statements  
for the year ended 31 December 2019

*Key management personnel*

Other liabilities	451,138	457,023
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ii) *Consolidated statement of statement of profit and loss and other comprehensive income*

	2019 KD	2018 KD
<i>Shareholders</i>		
Finance cost	898,430	811,256
Profit from time deposits	55,629	-

*Compensation to 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.

Significant transactions with key management personnel during the year represent salaries, allowances and other benefits amounting to KD 184,820 (2018: KD 256,190).

**17. Net investment (loss) / income**

	2019 KD	2018 KD
Change in fair value of investment properties (note 8)	(584,331)	(307,990)
Profit from time deposits	55,629	710
Foreign exchange gain	4,977	434,151
Other income	-	10,677
	<u>(523,725)</u>	<u>137,548</u>

**18. Other expenses**

	2019 KD	2018 KD
Rent	-	55,776
Professional fees	64,724	43,415
Travel expenses	20,045	17,225
Fees and subscription	1,849	2,011
Others	36,347	53,740
	<u>122,965</u>	<u>172,167</u>

**19. Liquidation of a subsidiary**

In 2018 the Group has completed the legal procedures for the liquidation of its fully owned subsidiary, IMMOBILIAIRE BERYTUS SA. Upon liquidation, the net assets were transferred to the Company by offsetting the related party payables. The difference between the carrying value of the investment at the time of liquidation and net assets transferred to the shareholders of the Parent Company, resulted in cumulative differences of foreign currency translation amounting to KD 327,981 recycled to the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements  
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**20. Basic and diluted loss per share**

	2019	2018
Profit / (loss) for the year (KD)	9,299	(6,704,965)
Weighted average number of shares outstanding during the year	150,000,000	150,000,000
Basic and diluted profit / (loss) per share (fils)	0.06	(44.70)

**21. Kuwait Foundation for Advancement of Sciences ("KFAS")**

Contribution towards KFAS is computed at 1% of the net profit for the year after deducting transfers made to statutory reserve.

**22. Zakat**

Contribution towards Zakat is computed at 1% of the net profit for the year after deducting the transfers made to statutory reserve and contribution made towards KFAS.

**23. Fiduciary assets**

Fiduciary assets comprise investments managed by the Group on behalf of clients. These are not assets of the Group and accordingly are not included in the consolidated financial statements.

As at the reporting date, total fiduciary assets managed by the Group amounted to KD 2,773,630 (2018: KD 2,768,740). The fee and commission earned on fiduciary assets amounted to KD 2,671 (2018 KD 2,788).

**24. Fair value of financial instruments**

The Group categorizes financial assets and liabilities into the following three levels based on the significance of inputs used in measuring the fair value of the financial assets. The fair value hierarchy has the following levels:

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

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

The estimated fair value of financial assets and liabilities that are not carried at fair value at the reporting date is not materially different from their carrying value.

Notes to the consolidated financial statements  
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*Fair value hierarchy*

The table below analyses financial assets carried at fair value.

<b>31 December 2019</b>	<b>Level 3 KD</b>	<b>Total KD</b>
Financial assets at fair value through other comprehensive income	<u>89,314</u>	<u>89,314</u>
<b>31 December 2018</b>	<b>Level 3 KD</b>	<b>Total KD</b>
Financial assets at fair value through other comprehensive income	<u>83,913</u>	<u>83,913</u>

The following table shows a reconciliation of the beginning and closing balances of Level 3 financial assets which are recorded at fair value:

Beginning at 1 January 2019	KD 83,913
Change in fair value	5,401
Balance at 31 December 2019	<u>89,314</u>

The table below analyses investment properties carried at fair value.

<b>31 December 2019</b>	<b>Level 3 KD</b>	<b>Total KD</b>
Investment properties	<u>3,592,788</u>	<u>3,592,788</u>
<b>31 December 2018</b>	<b>Level 3 KD</b>	<b>Total KD</b>
Investment properties	<u>4,114,161</u>	<u>4,114,161</u>

The following table shows a reconciliation of the beginning and closing balances of Level 3 investment properties which are recorded at fair value:

Beginning at 1 January 2018	KD 4,408,826
Additions during the year	13,325
Change in fair value	(307,990)
Balance at 31 December 2018	<u>4,114,161</u>
Additions during the year	62,958
Change in fair value	(584,331)
Balance at 31 December 2019	<u>3,592,788</u>

**25. Financial risk management**

The Group has exposure to the following risks arising from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Notes to the consolidated financial statements  
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This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and activities for measuring and managing risk and the Group's management of capital.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from balances with banks and Islamic finance receivables.

The Group limits its exposure to credit risk by only placing funds with counterparties that have high credit ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

*Credit quality analysis*

The carrying amounts of financial assets represent the maximum credit exposure.

	2019 KD	2018 KD
Cash and cash equivalents	455,510	67,238
Time deposits with banks	273,389	-
Other assets (excluding prepayments and property and equipment)	2,975,615	5,793,998
	<u>3,704,514</u>	<u>5,861,236</u>

The maximum exposure to credit risk for balances with banks and Islamic finance receivables at the reporting date by sector and geographic region is as follows:

	Balances with banks KD	Balances with other parties KD	Total KD
<b>2019</b>			
Carrying amounts	<u>737,778</u>	<u>2,966,736</u>	<u>3,704,514</u>
<b>Concentration by sector</b>			
Government	5,000	-	5,000
Banks	732,778	-	732,778
Real estate	-	2,966,736	2,966,736
	<u>737,778</u>	<u>2,966,736</u>	<u>3,704,514</u>
<b>Concentration by location</b>			
GCC	726,158	2,959,887	3,686,045
Europe	11,620	6,849	18,469
	<u>737,778</u>	<u>2,966,736</u>	<u>3,704,514</u>
<b>2018</b>			
Carrying amounts	<u>67,238</u>	<u>5,793,998</u>	<u>5,861,236</u>



Notes to the consolidated financial statements  
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<b>Concentration by sector</b>			
Government	5,000	-	5,000
Banks	62,238	-	62,238
Real estate	-	5,793,998	5,793,998
	<u>67,238</u>	<u>5,793,998</u>	<u>5,861,236</u>
<b>Concentration by location</b>			
GCC	61,893	5,793,998	5,855,891
Europe	5,345	-	5,345
	<u>67,238</u>	<u>5,793,998</u>	<u>5,861,236</u>

*Balances with banks*

Bank balances and time deposits are held with bank and financial institution counterparties, which are highly rated. 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. The 12-month ECL computed on the bank balances and term deposits are insignificant. Hence, no provision for ECL on bank balances are recognized.

*Balances with other parties*

Balances with other parties of the Group consist of receivables from related parties. The related parties are with high credit rating and reputed in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Group considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2019, these are neither impaired nor due. Based on the assessment performed by the Group, no provision for ECL on those balances were recognized.

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and bank facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At the reporting date, the contractual maturities of financial liabilities falls within one year, except Islamic finance payables and non-current portion of lease liabilities.

c) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and profit rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

*Equity price risk*

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

**Notes to the consolidated financial statements**  
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*Profit rate risk*

Profit rate risk is the risk that the fair value or future cash flows of Group's financial instrument will fluctuate because of changes in market profit rates.

Financial instruments which potentially subject the Group to profit rate risk consist principally of Islamic finance payables. As at 31 December 2019, the Group's Islamic finance payables are for a short term nature and hence, any fluctuation in the profit rate would not have any significant impact.

*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures.

Currency exposure arising from this managed primarily through purchasing in the relevant currency and maintaining bank accounts in the relevant currency.

The Group is exposed to currency risk on investments at jointly controlled entities, investment at fair value through other comprehensive income, bank accounts and payables denominated in currencies other than Kuwaiti Dinar.

*Exposure to currency risk*

As at reporting date, the Group has the following significant net assets exposures determined in foreign currencies:

	KD	Change in currency rate in %	Effect on profit or loss KD
<b>2019</b>			
USD	(2,722,238)	10	(272,224)
SAR	2,951,980	10	295,198
<b>2018</b>			
USD	(2,546,946)	10	(254,695)
SAR	5,788,658	10	578,866

A 10% weakening of KD against the above currencies at 31 December would have an equal but opposite effect, on the basis that all variables remain constant.

**26. Capital commitments**

During the year, the Group did not enter into any contracts that may result in capital commitments either from investment property that is under construction or from its interest in joint venture (2018: nil).

**Notes to the consolidated financial statements**  
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**27. Contingent liabilities**

The Group has provided guarantee to a bank in relation to a borrowing taken by its joint venture, Hayat Real Estate Investment Company L.L.C. As per the guarantee, the Group will service the debt service reserve account of the bank up to maximum KD 606,908 (2018: KD 607,410) being its share of 50%, in the event the joint venture is unable to repay the bank.

**28. Capital management**

The management's policy is to maintain a strong capital base to sustain future development of the business. The management monitors the return on capital through operating cash flow management. The management seeks to maintain a balance between higher returns and the advantages and security offered by a sound capital position. The Group is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations.

**29. Subsequent events**

The presence of the novel Coronavirus ("COVID-19") was confirmed in early 2020 and has spread throughout China and other countries, causing disruption in business and economic activity worldwide. The Group considered this outbreak to be an event that does not entail adjustment subsequent to the reporting date. Given that the situation is changing and rapidly evolving, we do not consider it practical to provide a quantitative estimate regarding the potential impact of this outbreak on the Group's assets and business. The impact of this outbreak, if any, will be included in the Group's estimate of impairment provisions for the year ended 31 December 2020.

