

**UNITED PROJECTS COMPANY FOR AVIATION
SERVICES K.S.C.P. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of United Projects Company For Aviation Services K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 6 to the consolidated financial statements, which describes the uncertainty relating to the management's ability to renew a Build- Operate-Transfer ("BOT") contract that may have an impact on a portion of the Group's operations in the future relating to this BOT contract. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

a) Classification and valuation of a financing arrangement

The Group has started financing a related party since 2014 for constructing and developing a mega commercial mall in UAE ("Project") through a complex financing arrangement. As the terms of the agreement are critical for assessing the ongoing classification of this arrangement and the valuation of amounts due from the related party, the management evaluates these terms on each reporting period. In prior year, the financing arrangement was carried at amortised cost. However, due to adoption of IFRS 9, the financing arrangement of the Project is required to be classified as financial assets carried at fair value through profit or loss ("FVPL"). The management assessed the fair value of the Project at the reporting date using the discounted cash flow method that requires the use of various unobservable inputs. Given the significance of the Project and the complexity and estimation uncertainty involved in the valuation of the financing arrangement, we have identified the classification and valuation of the financing arrangement as a key audit matter.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Classification and valuation of a financing arrangement (continued)

As part of our audit procedures, among others, we have evaluated the terms of various agreements entered by the Group in relation to this Project to assess the appropriateness of the accounting treatment, classification and disclosure of all aspects of the financing arrangements to date. We have tested a sample of the material contributions made during the year to finance the Project by tracing them to supporting evidence and comparing it with the contractual terms of the agreements. For the valuation of the Project, we involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology used and challenging of the assumptions and judgements applied by management.

We evaluated the adequacy of the Group's disclosures concerning the loan to a related party in Note 13 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

Other information included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS
COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)**


Report on the Audit of the Consolidated Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.



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

10 February 2019
Kuwait

United Projects Company For Aviation Services K.S.C.P and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018 KD</i>	<i>2017 KD</i>
Revenues		13,716,188	13,992,623
Operating costs		<u>(1,197,377)</u>	<u>(1,231,814)</u>
GROSS PROFIT		12,518,811	12,760,809
General and administrative expenses		(2,101,933)	(1,824,877)
Salaries and employee benefits		(1,198,110)	(1,141,153)
Share of results of an associate	7	(9,555)	-
Revaluation gain on loan to a related party		269,322	-
Other income		<u>110,550</u>	<u>79,806</u>
Profit before interest, taxation, depreciation and amortisation ("EBITDA")		9,589,085	9,874,585
Depreciation		(77,793)	(71,868)
Amortisation	6	<u>(1,881,508)</u>	<u>(1,871,547)</u>
Profit before interest and taxation ("EBIT")		7,629,784	7,931,170
Interest income		3,405,336	2,200,991
Finance cost		<u>(775,224)</u>	<u>-</u>
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Board of Directors' Remuneration		10,259,896	10,132,161
Contribution to KFAS		(101,512)	(82,782)
NLST		(264,884)	(257,476)
Zakat		(116,469)	(91,501)
Board of Directors' remuneration	16	<u>(25,000)</u>	<u>(25,000)</u>
PROFIT FOR THE YEAR		<u>9,752,031</u>	<u>9,675,402</u>
Attributable to:			
Equity holders of the Parent Company		9,710,806	9,644,470
Non-controlling interests	4	<u>41,225</u>	<u>30,932</u>
		<u>9,752,031</u>	<u>9,675,402</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	5	<u>80.30</u> fils	<u>98.28</u> fils

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C.P and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHESIVE INCOME

For the year ended 31 December 2018

	2018 KD	2017 KD
Profit for the year	9,752,031	9,675,402
Other comprehensive income (loss):		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Foreign currency translation adjustment	5,208	(333,914)
Share of other comprehensive loss of associate	(36,609)	-
Other comprehensive loss for the year	(31,401)	(333,914)
Total comprehensive income for the year	9,720,630	9,341,488
Attributable to:		
Equity holders of the Parent Company	9,679,405	9,310,556
Non-controlling interests	41,225	30,932
Total comprehensive income for the year	9,720,630	9,341,488

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Non-current assets			
Property and equipment		216,407	283,580
Intangible assets	6	8,513,402	10,224,312
Investment in an associate	7	6,539,345	-
Financial assets available for sale	7	-	1,449,198
Loan to a related party	13	42,054,013	30,022,447
		<u>57,323,167</u>	<u>41,979,537</u>
Current assets			
Accounts receivable and other assets	8	3,635,790	3,499,184
Cash and cash equivalents	9	10,211,760	7,679,086
		<u>13,847,550</u>	<u>11,178,270</u>
TOTAL ASSETS		<u><u>71,170,717</u></u>	<u><u>53,157,807</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10 (a)	13,175,000	10,000,000
Share premium	10 (a)	27,327,500	10,500,000
Statutory reserve	10 (b)	6,021,868	5,000,000
Treasury shares	11	(1,544,594)	(1,544,594)
Other reserve		(297,587)	(260,978)
Foreign currency translation reserve		5,208	(333,914)
Retained earnings		7,644,805	15,480,385
Equity attributable to equity holders of the Parent Company		<u>52,332,200</u>	<u>38,840,899</u>
Non-controlling interests	4	2,129,295	2,123,770
Total equity		<u>54,461,495</u>	<u>40,964,669</u>
Non-current liabilities			
Accounts payable and other liabilities	12	3,532,872	4,774,891
Employees' end of service benefits		459,844	399,990
		<u>3,992,716</u>	<u>5,174,881</u>
Current liabilities			
Loans and borrowings	14	4,400,000	-
Accounts payable and other liabilities	12	8,316,506	7,018,257
		<u>12,716,506</u>	<u>7,018,257</u>
Total liabilities		<u>16,709,222</u>	<u>12,193,138</u>
TOTAL EQUITY AND LIABILITIES		<u><u>71,170,717</u></u>	<u><u>53,157,807</u></u>

Tarek Ibrahim Mohammad Al Mousa
Chairman

Nadia Abdullah Mohammad Akil
CEO & Vice Chairperson

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
OPERATING ACTIVITIES			
Profit for the year before KFAS, NLST, Zakat and Board of Directors' Remuneration		10,259,896	10,132,161
Adjustments for:			
Depreciation and amortisation		1,959,301	1,943,415
Provision for employees' end of service benefits		80,303	123,332
Share of results of an associate		9,555	-
Interest income		(3,405,336)	(2,200,991)
Provision for expected credit loss/ impairment losses	8	405,950	94,993
Revaluation gain on loan to a related party		(269,322)	-
Finance cost		775,224	-
		<u>9,815,571</u>	<u>10,092,910</u>
Working capital changes:			
Accounts receivable and other assets		(1,454,632)	(1,260,033)
Accounts payable and other liabilities		(917,406)	181,838
Cash flows from operations		<u>7,443,533</u>	<u>9,014,715</u>
Employees' end of service benefits paid		(20,449)	(27,903)
Net cash flows from operating activities		<u>7,423,084</u>	<u>8,986,812</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(10,620)	(74,611)
Additions to intangible assets	6	(170,598)	(24,065)
Proceeds from maturity of financial assets available for sale		-	1,300,000
Loan to a related party		(13,726,552)	(7,913,845)
Interest income received		282,322	97,761
Net cash flows used in investing activities		<u>(13,625,448)</u>	<u>(6,614,760)</u>
FINANCING ACTIVITIES			
Proceeds from rights issue		20,002,500	-
Proceeds from loans and borrowings		5,900,000	-
Repayments of loans and borrowings		(1,500,000)	-
Dividend paid	16	(15,358,009)	-
Finance cost paid		(309,453)	-
Cash flows from financing activities		<u>8,735,038</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>2,532,674</u>	<u>2,372,052</u>
Cash and cash equivalents as at 1 January		<u>7,679,086</u>	<u>5,307,034</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	9	<u><u>10,211,760</u></u>	<u><u>7,679,086</u></u>

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Parent Company										Total
	Share Capital KD	Share premium KD	Statutory reserve KD	Treasury shares KD	Other reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD		Total KD
As at 1 January 2018	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	(333,914)	15,480,385	38,840,899	2,123,770		40,964,669
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.2)	-	-	-	-	-	333,914	(1,166,509)	(832,595)	(35,700)		(868,295)
As at 1 January 2018 (restated)	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	-	14,313,876	38,008,304	2,088,070		40,096,374
Profit for the year	-	-	-	-	-	-	9,710,806	9,710,806	41,225		9,752,031
Other comprehensive income for the year	-	-	-	-	(36,609)	5,208	-	(31,401)	-		(31,401)
Total comprehensive income for the year	-	-	-	-	(36,609)	5,208	9,710,806	9,679,405	41,225		9,720,630
Dividend paid (Note 16)	-	-	-	-	-	-	(15,358,009)	(15,358,009)	-		(15,358,009)
Issuance of share capital (Note 10 (a))	3,175,000	16,827,500	-	-	-	-	-	20,002,500	-		20,002,500
Transfer to statutory reserve	-	-	1,021,868	-	-	-	(1,021,868)	-	-		-
As at 31 December 2018	13,175,000	27,327,500	6,021,868	(1,544,594)	(297,587)	5,208	7,644,805	52,332,200	2,129,295		54,461,495
As at 1 January 2017	8,250,000	10,500,000	4,125,000	(1,544,594)	(260,978)	-	8,460,915	29,530,343	2,460,240		31,990,583
Profit for the year	-	-	-	-	-	-	9,644,470	9,644,470	30,932		9,675,402
Other comprehensive loss for the year	-	-	-	-	-	(333,914)	-	(333,914)	-		(333,914)
Total comprehensive (loss) income for the year	-	-	-	-	-	(333,914)	9,644,470	9,310,556	30,932		9,341,488
Issue of bonus shares	1,750,000	-	-	-	-	-	(1,750,000)	-	-		-
Transfer to statutory reserve	-	-	875,000	-	-	-	(875,000)	-	-		-
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	(367,402)		(367,402)
As at 31 December 2017	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	(333,914)	15,480,385	38,840,899	2,123,770		40,964,669

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1 ACTIVITIES AND CORPORATE INFORMATION

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 were authorised for issue by the board of directors on 10 February 2019. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

United Projects Company for Aviation Services K.S.C.P. (the "Parent Company") was established as a closed Kuwaiti shareholding company on 4 December 2000. The Parent Company's registered address is Kuwait International Airport, P.O. Box 27068 Safat 13131, State of Kuwait. The main objectives of the Parent Company are:

- Providing airplane ground and cleaning services and supply of water and other airplane supplies;
- Leasing out airplanes;
- Tourism, travel and cargo shipment services;
- Managing projects;
- Investing surplus funds in investment portfolios managed by specialised institutions;
- The right to participate with other firms, which operate in the same field or those, which would assist in achieving its objectives in Kuwait or abroad, and to purchase those firms or participate in their equity.
- Management and development of real estate activities including real estate consultancy services;
- General trading of construction materials, equipment and real estate;
- To own, lease and rent out land and real estate properties;
- Sharing in executing the infrastructure for the housing, trading and industrial projects and manage real estate facilities under BOT regulations.

The Parent Company is listed on the Kuwait Stock Exchange and is a subsidiary of Agility Public Warehousing Company K.S.C.P (the "Ultimate Parent Company"), which is also listed on the Kuwait Stock Exchange.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for loan to a related party that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional of the Parent Company.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of following new and amended standards effective as of 1 January 2018.

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 *Financial Instruments* effective from 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 - Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities:

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortised cost,
- Fair Value through Other Comprehensive Income (FVOCI) and
- Fair Value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in note 2.4.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.4.

Hedge accounting:

The Group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the Group is not dealing in any derivative instruments.

IFRS 9 transition disclosures

The total impact on the Group's equity as at 1 January 2018 is as follows:

	<i>Retained earnings KD</i>	<i>Non- controlling interest KD</i>	<i>Foreign currency translation reserve KD</i>
Closing balance under IAS 39 (31 December 2017)	15,480,385	2,123,770	(333,914)
<i>Impact on reclassification and re-measurements:</i>			
Debt securities - debt from loan to a related party to FVPL	(290,133)	-	333,914
<i>Impact on recognition of ECL on financial assets:</i>			
ECL under IFRS 9 for financial assets – accounts receivables at amortised cost	(876,376)	(35,700)	-
Opening balance under IFRS 9 on date of initial application at 1 January 2018	<u>14,313,876</u>	<u>2,088,070</u>	<u>-</u>

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 transition disclosures (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD	Transition adjustments KD	New carrying amount under IFRS 9 KD
Cash and bank balances	Loans and receivables	Amortised cost	7,679,086	-	7,679,086
Financial assets available for sale – equity securities	Financial assets available for sale	Equity instruments at FVOCI	1,449,198	-	1,449,198
Accounts receivable and other assets	Loans and receivables	Amortised cost	3,499,184	(912,076)	2,587,108
Loan to a related party	Amortised cost	FVTPL	30,022,447	43,781	30,066,228
Total financial assets			42,649,915	(868,295)	41,781,620

The application of these policies resulted in the reclassifications set out in the table above. On adoption of IFRS 9, loan to a related party was reclassified out of the loans and receivables category to FVPL since the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

Expected credit losses (ECL)

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to equity amounting to KD 912,076 and an additional charge in the current consolidated statement of income amounting to 405,950 (Note 8).

IFRS 15 – Revenue from Contracts with Customers

The Group adopted IFRS 15 *Revenue from Contracts with Customers* on its effective date of 1 January 2018. IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

IFRS 15 did not have a significant impact on the Group's accounting policies as revenue streams mainly comprise of rental income, service income and interest income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group has assessed the impact of IFRS 16 which is not expected to be material and plans to adopt the new standard on the required effective date.

2.4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of consolidation

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

The consolidated financial statements of the Group include:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>% equity interest</i>	
			2018	2017
Royal Aviation Company K.S.C. (Closed) ("RAC")	Kuwait	Management and services	66.57	66.57
UPAC United Real Estate Company K.S.C.C. ("UREC") ¹	Kuwait	Real estate and property development	96.00	-
Al Arfaj Real Estate Company K.S.C. (Closed) ("Arfaj") ¹	Kuwait	Real estate and property development	96.00	96.00
<i>Held indirectly through Arfaj</i>				
Arfaj Limited ¹	United Arab Emirates	Real estate and property development	100.00	100.00

¹ The remaining shares are held by other related parties on behalf of the Parent Company and therefore the effective holding of the Group in these subsidiary is 100%.

Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from operating leases, less the Group's initial direct costs of entering into the leases is recognised on a straight-line basis over lease term, except for contingent rental income which is recognised when it arises.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the consolidated statement of income when they arise.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Services income

Revenue from aviation services such as aircraft ground handling and real estate activities such as security, cleaning and maintenance works are recognised when the related services are rendered.

Interest income

Interest income is recognised as interest accrues using effective interest rate method.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Taxation

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

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

National Labour Support Tax (NLST)

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

Commercial complex of Kuwait International Airport	20 years
Discovery Mall*	10 years
Sheikh Saa'd Terminal	16 years

*Fully amortised as at 31 December 2018

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of e income.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for assets previously revalued where the revaluation taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

Financial assets

Initial recognition and measurement

Policy applicable from 1 January 2018

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cashflow characteristics of the financial assets.

Business model assessment

The Group determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Policy applicable from 1 January 2018 (continued)

'Interest' is defined as consideration for time value of money and for the credit risk associated with the principal 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 interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cashflows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group has determined the classification and measurement of its financial assets as follows:

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of, cash in hand, bank balances, short-term deposits with an original maturity of three months or less. Cash, bank balances and deposits are carried at amortised cost using effective interest rate.

Account receivables and other assets

Receivables are carried at undiscounted original invoiced amount less any expected credit losses.

Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets in this category are those assets, which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

Loan to related party is classified as financial assets carried at FVTPL since the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

Policy applicable before 1 January 2018

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or financial assets available for sale, or as derivatives designated as hedging instrument in an effective hedge as appropriate. All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Policy applicable before 1 January 2018 (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets available for sale

Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of comprehensive income or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of comprehensive income. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of comprehensive income. The losses for loans and receivables arising from impairment are recognised in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows comprise cash in hand and at banks, cash held by portfolio manager and time deposits with an original maturity of up to three months.

Derecognition of financial assets

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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

Financial liabilities

Initial recognition and measurement

The accounting for financial liabilities remain largely the same as it was under IAS 39. Financial liabilities are recognised initially at fair value and, in case of loans, borrowings and payables, net of directly attributable transactions costs.

The Group's financial liabilities include loans and borrowings and accounts payable and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR).

Accounts payable and other liabilities

Liabilities are recognised for amounts the Group obligated to pay in the future for goods or services received, whether billed by the supplier or not.

Derecognition

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 profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Policy applicable from 1 January 2018

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

IFRS 9 introduces three-stage approach to measuring ECL under the general approach. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade" to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument. When the Group is not able to measure expected credit losses on an individual instrument basis due to cost and effort constraints, it determines significant increases in credit risk on a collective basis, and for this purpose groups financial instruments on the basis of shared credit risk characteristics.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date based on factors that include financial difficulty of the customer or a default or past due event. For these assets, lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure, the value of any collateral.

Any adjustments to the carrying amount of the financial asset arising from expected credit losses is recognized in profit or loss as an impairment gain or loss and the loss allowance for ECL is presented as a deduction from the gross carrying amount of the financial assets at amortised cost.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The Group recognizes ECL for counter fee receivable and other receivables using the general approach described above. The Group applies the simplified approach to recognise lifetime expected credit losses for its rent receivable s that are financial assets as permitted by IFRS 9. Accordingly, rent receivable from lessees that are financial assets which are not credit impaired are categorised under stage 2 and lifetime ECL is recognised.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Event of default

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Fair value measurement

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

Contingencies

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

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Any realised losses are recognised in treasury share reserve or share premium reserve to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Employees' end of service benefits

The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

Foreign currencies

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

Transactions and balances

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Transactions and balances (continued)

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

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Segment information

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant judgments

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

Classification of financial assets

Effective from 1 January 2018 (IFRS 9)

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

Effective before 1 January 2018 (IAS 39)

Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of associates

The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Impairment of receivables

Effective before 1 January 2018 (IAS 39)

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

Effective from 1 January 2018 (IFRS 9)

For receivables, the Group applies a simplified approach in calculating ECL.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

Useful lives intangible assets

Management of the Group assigns useful lives to intangible assets based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

Fair value measurement of financial assets

When the fair values of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (“DCF”) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of unobservable inputs to reflect market conditions. Changes in assumptions about these factors could affect the reported fair value of financial assets. See Note 20 for further disclosures.

Impairment of intangible assets

A decline in the value of intangible assets could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value which would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

4 GROUP INFORMATION

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership %</i>	
			<i>2018</i>	<i>2017</i>
Royal Aviation Company K.S.C. (Closed) ("RAC")	Kuwait	Management and services	33.43	33.43

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	<i>RAC</i>	<i>RAC</i>
	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>
<i>Summarized statement of income statement for the year ended 31 December:</i>		
Revenues	2,197,719	2,178,501
Operating costs	(792,887)	(818,060)
Net operating expenses	(506,774)	(455,711)
Other income	47,228	9,265
EBITDA	945,286	913,995
Depreciation and amortization	(821,968)	(821,466)
Profit for the year	123,318	92,529
Profit allocated to non-controlling interests	41,225	30,932

Summarised statement of financial position as at 31 December:

	<i>RAC</i>	<i>RAC</i>
	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>
Non-current assets	5,603,694	5,128,694
Current assets	1,337,876	1,906,112
Non-current liabilities	(47,750)	(44,745)
Current liabilities	(524,577)	(637,175)
Total equity	6,369,243	6,352,886
Accumulated balances of non-controlling interests:	2,129,295	2,123,770

Summarised cash flow information for year ended 31 December:

	<i>RAC</i>	<i>RAC</i>
	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>
Operating cash flows	750,000	455,123
Investing cash flows	(1,296,968)	(7,764)
Net (decrease) increase in bank balances and cash	(546,968)	447,359

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

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5 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding during the year (excluding treasury shares).

The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	<u>9,710,806</u>	<u>9,644,470</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of paid up shares	<u>125,754,549</u>	<u>102,956,056</u>
Weighted average number of treasury shares	<u>(4,824,307)</u>	<u>(4,824,307)</u>
Weighted average number of shares, less treasury shares, outstanding during the year	<u>120,930,242</u>	<u>98,131,749</u>
Basic and diluted earnings per share	<u>80.30 fils</u>	<u>98.28 fils</u>

Earnings per share for 2017 has been adjusted to reflect the rights issue during the year (Note 10 a).

6 INTANGIBLE ASSETS

Intangible assets represent cost incurred on the construction of the Discovery Mall, Sheikh Saa'd Terminal, car park and commercial complex of Kuwait International Airport in accordance with Built-Own-Transfer (BOT) agreement with the government of Kuwait and have useful life and amortised as disclosed in Note 2.

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Cost:		
As at 1 January	<u>41,606,553</u>	<u>41,582,488</u>
Additions	<u>170,598</u>	<u>24,065</u>
As at 31 December	<u>41,777,151</u>	<u>41,606,553</u>
Amortisation:		
As at 1 January	<u>31,382,241</u>	<u>29,510,694</u>
Charge for the year	<u>1,881,508</u>	<u>1,871,547</u>
As at 31 December	<u>33,263,749</u>	<u>31,382,241</u>
Net carrying amount:		
As at 31 December	<u>8,513,402</u>	<u>10,224,312</u>

Included in intangible assets is a fully amortised intangible asset (31 December 2018: KD Nil and 31 December 2017: KD Nil) that represents Built-Own-Transfer (BOT) project for the construction of Discovery Mall (the "Mall"). This Mall was built on a leasehold land from the Touristic Enterprise Company ("TEC") for an initial period of 10 years which was then extended by seven months to 28 January 2014. Since there were various delays in receiving the leasehold land from TEC, which resulted in an adverse effect on the investment term, the Parent Company requested to renew the contract for an additional period and has subsequently filed a compensation claim. However, TEC has filed a lawsuit requesting the Parent Company to withdraw from the Mall and deliver the Mall back. The First Instance court ruled in favor of TEC acknowledging the initial expiration of the contract. The Parent Company appealed the judgement which was subsequently transferred to a committee of experts to assess the overall damages and compensation. The Parent Company also submitted recourse before the Cassation Court, which ruled that the execution judgement should be suspended. The Parent Company is therefore still handling the management and operation of the Mall on the basis of the Cassation Court judgement and cannot assess when these proceedings will come to closure until a final ruling is made. Accordingly, revenue from the Mall has been recognised by the Parent Company in the consolidated statement of income because it is, in all cases, an exclusive right for which the Parent Company is entitled to, regardless of the outcome of the lawsuits filed by both parties.

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6 INTANGIBLE ASSETS (continued)

Included in intangible assets is an amount of KD 4,230,853 (2017: KD 5,008,904) that represents the carrying value of Built-Own-Transfer (BOT) project for the construction of Sheikh Saa'd Terminal (the "terminal"). This was built on a leasehold land from the government of the State of Kuwait for 20 years which will expire on 2024. Since September 2013, The Civil Aviation Authority permitted Flydubai, one of the carriers to operate from the terminal. As a result of this, the management is confident that the carrying amount of the terminal is fully recoverable and no impairment is considered necessary.

Included in intangible assets is an amount of KD 4,282,549 (2017: KD 5,215,408) that represents the carrying value of Built-Own-Transfer (BOT) project for the construction of the car park and commercial complex of Kuwait International Airport. This was built on a leasehold land from the government of the State of Kuwait for 20 years which will expire on 2023. The management is confident that the carrying amount of the intangible asset is fully recoverable and no impairment is considered necessary.

7 INVESTMENT IN AN ASSOCIATE

Name	Country of incorporation	% equity interest		Principal activities
		2018	2017	
Naples Topco Limited	UAE	9.47	2.1	Real estate

During the current year, the Group subscribed for equity interest in Naples through transferring portion of loan to a related party (Note 13) amounting to AED 62M equivalent to KD 5.1M resulting in ownership of 9.47% (2017: 2.1%) to equity. The Group has determined that it exercises significant influence over associate through virtue of board representation, which has changed during the year.

Summarised financial information of the associate is as follows:

	2018 KD
Assets and liabilities:	
Non-current assets	175,873,116
Current assets	523,403
Non-current liabilities	(97,657,951)
Current liabilities	(9,685,301)
Equity	69,053,267
Proportion of the Company's ownership	9.47%
Company's share in Equity	6,539,345
Loss for the year	(910,000)
Company's share in the loss for the year*	(9,555)
Other comprehensive loss for the year	(3,486,571)
Company's share in other comprehensive income	(36,609)

* Share of results were accounted on a pro rata basis from date the Group achieved significance influence.

The movement in the carrying amount of the investment in an associate during the year is as follows:

	2018 KD
Transfer from financial asset available for sale	1,449,198
Contribution during the year	5,131,103
Share of results	(9,555)
Share of other comprehensive income	(36,609)
Foreign currency translation adjustment	5,208
As at 31 December	6,539,345

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8 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2018 KD	2017 KD
Rent receivables	1,542,931	1,208,743
Counter fee receivable	2,422,000	1,720,000
Other receivables	600,424	501,233
Prepayments	826,633	517,504
	<u>5,391,988</u>	<u>3,947,480</u>
Provision against impairment of receivables	<u>(1,756,198)</u>	<u>(448,296)</u>
	<u>3,635,790</u>	<u>3,499,184</u>

Movements in the allowance for provision against impairment of receivables is as follows:

	2018 KD	2017 KD
As at 1 January	448,296	370,788
Transition adjustment to IFRS 9 (note 2.2)	912,076	-
Charge for the year	405,950	100,927
Reversal during the year	-	(5,934)
Amounts written off	<u>(10,124)</u>	<u>(17,485)</u>
At end of the year	<u>1,756,198</u>	<u>448,296</u>

As at 31 December, the ageing of unimpaired accounts receivable and other assets is as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired			
			1 – 30 days KD	31 – 60 days KD	61 – 90 days KD	Over 90 days KD
2018	<u>2,809,157</u>	<u>8,771</u>	<u>426,904</u>	<u>228,717</u>	<u>161,658</u>	<u>1,983,107</u>
2017	<u>2,981,680</u>	<u>-</u>	<u>224,860</u>	<u>213,414</u>	<u>146,884</u>	<u>2,396,522</u>

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position consist of the following:

	2018 KD	2017 KD
Cash and bank balances	3,168,641	1,888,680
Short term deposits	7,043,119	5,790,406
Cash and cash equivalents	<u>10,211,760</u>	<u>7,679,086</u>

Short term deposits are denominated in KD and carry an effective interest rate range between 1.75% to 2.25% (2017: 1.25% to 1.5%) per annum with maturity less than three months from reporting date.

United Projects Company For Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

10 SHARE CAPITAL AND RESERVES

a) Share capital and share premium

The authorised share capital of the Parent Company is KD 38,250,000 comprises of 382,500,000 shares of 100 fils each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 29 September 2016. Issued and paid up share capital of the Parent Company as at 31 December 2018 is KD 13,175,000 (2017: KD 10,000,000) comprises of 131,750,000 shares (31 December 2017: 100,000,000 shares) of 100 fils each.

During the period, the Parent Company made a rights issue to its shareholders at KD 0.630 per share made up of KD 0.100 share capital and KD 0.530 share premium. A total of 31,750,000 shares were issued resulting in an increase in share capital by KD 3,175,000 and an increase in the share premium account by KD 16,827,500.

The share premium is not available for distribution.

At the Board of Directors meeting held on 12 September 2018, the directors recommended an increase in issued share capital by a rights issue to its shareholders at KD 0.550 per share made up of KD 0.100 share capital and KD 0.450 share premium. The proposed issuance, shall result in increase of issued and paid up capital to 164,500,000 shares and an increase of share capital to KD 16,450,000.

b) Statutory reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

11 TREASURY SHARES

	<i>2018</i>	<i>2017</i>
Number of treasury shares	<u>4,824,307</u>	<u>4,824,307</u>
Percentage of issued shares (%)	<u>4%</u>	<u>5%</u>
Market value (KD)	<u>3,063,435</u>	<u>2,822,220</u>
Cost (KD)	<u>1,544,594</u>	<u>1,544,594</u>

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

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>
Accounts payable	1,382,294	1,242,004
Accrued expenses	1,192,353	699,040
Rent received in advance*	7,021,016	7,360,149
Provision for staff leave	120,524	116,130
Tenant deposits	2,107,528	2,174,302
Other payables	25,662	201,523
	<u>11,849,377</u>	<u>11,793,148</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 ACCOUNTS PAYABLE AND OTHER LIABILITIES (continued)

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Classified as:		
Non-current liability	3,532,872	4,774,891
Current liability	8,316,505	7,018,257
	<u>11,849,377</u>	<u>11,793,148</u>

* This amount includes a non-current portion for rent received in advance beyond 12 months of the reporting period amounting to KD3,532,872 (2017: KD 4,774,891) which represents rent received in advance by the Group from tenants in accordance with a rental agreements.

The accounts payable and other liabilities balances above are non-interest bearing and are settled throughout the financial year except for rent received in advance as mentioned above.

13 RELATED PARTY DISCLOSURES

These represent transactions with related parties, i.e. major shareholders, associate, 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.

Transactions and balances and with related parties are as follows:

	<i>Other related parties</i> <i>KD</i>	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Consolidated statement of income :			
Revenues	72,730	72,730	19,427
Operating costs	(262,700)	(262,700)	(270,545)
General and administrative expenses	(19,773)	(19,773)	(28,553)
Other income	-	-	42,792
Interest income	3,123,014	3,123,014	2,103,230
	<i>Ultimate parent company</i>	<i>Other related parties</i> <i>KD</i>	<i>2018</i> <i>KD</i>
			<i>2017</i> <i>KD</i>
Consolidated statement of financial position:			
Amounts due from a related party (included in accounts receivable and other assets)	-	-	43,878
Amounts due to related parties (included in accounts payable and other liabilities)	(326,264)	(64,666)	(309,697)
Investment in an associate (Note 7)	-	6,539,345	-
Loan to a related party*	-	42,054,013	30,022,447
Financial assets available for sale (Note 7)	-	-	1,449,198

Amounts due from/to related parties are interest free and are receivable/payable on demand. Other related parties include entities under common control.

* Loan to a related party represents amounts advanced by a subsidiary of the Group towards the construction and development of a commercial mall in UAE ("Project"). This amount bears compounded annual interest rates as per the loan agreement and can be converted to equity in the Project on completion of construction subject to the Project achieving certain operational targets. The Group has contributed KD 6,539,345 (2017: KD 1,449,198) in the equity of the Project out of the Group's capital commitment. After adopting IFRS 9 on January 2018, loan to a related party have been reclassified as FVPL (Note 2.2).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 RELATED PARTY DISCLOSURES (continued)

Movement in loan to a related party during the year is as follows:

	2018 KD	2017 KD
As at 1 January	30,022,447	20,339,286
Transition adjustment to IFRS 9 (Note 2.2)	43,781	-
Additional contribution	8,595,449	7,913,845
Interest accrued	3,123,014	2,103,230
Change in fair value ¹	(24,378)	-
Foreign currency translation adjustments	293,700	(333,914)
	<u>42,054,013</u>	<u>30,022,447</u>

1 The fair value of loan to a related party is determined based on residual land value report prepared by management using discounted cash flow for the Project. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using various unobservable inputs and hence classified as level 3.

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2018 KD	2017 KD
Short-term benefits	204,387	227,968
Employees' end of service benefits	21,267	62,846
	<u>225,654</u>	<u>290,814</u>

14 LOANS AND BORROWINGS

	2018 KD	2017 KD
Gross amount	<u>4,400,000</u>	<u>-</u>

During the year ended 31 December 2017, the Parent Company signed a syndicated loan agreement consisting of two facilities with a local bank for an amount of KD 50,100,000 to finance the construction, development of a commercial mall in UAE, the Project (Note 13), and for working capital requirements of the Parent Company. As at 31 December 2018, an amount of KD 5,900,000 has been withdrawn and KD 1,500,000 of which is repaid. This loan facility bears an average finance cost of 6% (31 December 2017: 0%) per annum and is repayable on 31 July 2019.

15 COMMITMENTS AND CONTINGENCIES

BOT commitments – Group as a lessor

The Shaikh Saad Terminal, Discovery Mall, T4 car park, car park and commercial complex of Kuwait International Airport (Note 6) are constructed on a leased land for which an annual lease payment of KD 1,675,035 (2017: KD 872,678) has been made. The lease payments for the future periods are as follows:

	2018 KD	2017 KD
Within one year	1,675,035	872,678
After one year but no later than five years	7,368,950	3,202,712
Later than 5 years	-	335,678
	<u>9,043,985</u>	<u>4,411,068</u>

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15 COMMITMENTS AND CONTINGENCIES (continued)

On 25 November 2018, the Parent Company signed a five year BOT contract with a total contract value of KD 5,352,000 with the Incheon International Airport Corporation (IIAC), the operator of Kuwait Airport Terminal 4 ("T4"), and under the auspices of the Directorate General of Civil Aviation (DGCA), to develop, operate and maintain the parking and related facilities at the new Kuwait Airways dedicated Terminal 4 (T4). The Group's operations at T4 are due to start by February 2019.

Contingencies

As at 31 December 2018, the Group had contingent liabilities, amounting to KD 37,344,054 (2017: KD 307,290), in respect of bank guarantees arising in the ordinary course of business.

16 DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

At the Annual General Assembly of the shareholders of the Parent Company held on 24 April 2018, the shareholders approved the distribution of cash dividends of 121 fils per share (2016: KD Nil) amounting to KD 15,358,009 for the year ended 31 December 2017 (2016: Nil) for shareholders registered on the appropriate regulatory approval date on 15 May 2018 which has been paid on 23 May 2018.

At the Board of Directors meeting held on 10 February 2019, the directors recommended distribution of cash dividend of 21 fils (2017: 121 fils) per share for the year ended 31 December 2018 and Board of Directors' remuneration of KD 25,000 (2017: KD 25,000). The proposed dividend, if approved at the AGM by the shareholders, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

Board of Directors' remuneration is within the amount permissible under local regulations and is subject to approval by the annual general assembly of the shareholders of the Parent Company.

17 SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, taxation is managed on a Group basis and is not allocated to operating segments.

For management purposes, the Group is organised in two operating segments: i) Investments: consists of investing in Reem mall and surplus funds in investment portfolios. ii) Service operations: consists of managing projects and providing airplane ground and cleaning services and other service facilities.

	<i>Investments</i>		<i>Services operations</i>		<i>Total</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Segment revenues	<u>3,665,104</u>	<u>2,200,991</u>	<u>13,826,738</u>	<u>14,072,677</u>	<u>17,491,842</u>	<u>16,273,668</u>
Segment profit	<u>2,889,880</u>	<u>2,200,991</u>	<u>7,370,016</u>	<u>7,931,170</u>	<u>10,259,896</u>	<u>10,132,161</u>
Unallocated Expenses					<u>(507,865)</u>	<u>(456,759)</u>
Profit for the year					<u>9,752,031</u>	<u>9,675,402</u>
Depreciation and Amortisation	<u>-</u>	<u>-</u>	<u>1,959,301</u>	<u>1,943,415</u>	<u>1,959,301</u>	<u>1,943,415</u>
Assets	<u>56,151,929</u>	<u>37,468,051</u>	<u>15,018,788</u>	<u>15,689,756</u>	<u>71,170,717</u>	<u>53,157,807</u>
Liabilities	<u>-</u>	<u>-</u>	<u>16,709,222</u>	<u>12,193,138</u>	<u>16,709,222</u>	<u>12,193,138</u>
Other disclosures:						
Capital expenditure	<u>-</u>	<u>-</u>	<u>170,598</u>	<u>24,065</u>	<u>170,598</u>	<u>24,065</u>

Capital expenditure represents additions to intangible assets.

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, comprise accounts payable and other liabilities and bank borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivable and other assets and cash and cash equivalents that derive directly from its operations. The Group also holds investments in loan to a related party.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

18.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of foreign currency risk and interest rate risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to investments in foreign currencies for loan to related party.

Foreign currency sensitivity

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

Currency	Change in exchange rate	Effect on profit or loss (relates to monetary financial assets)	
		2018 KD	2017 KD
AED	+5%	2,102,701	-

There is no sensitivity effect on OCI as the Group has no assets classified as fair value through OCI or designated hedging instruments. An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

Interest rate risk

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

The Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

Interest rate sensitivity

A reasonably possible change of 100 basis points in interest rates at the reporting date would have resulted in a decrease in profit for the year by KD 39,257 (2017: KD 26,315). This analysis assumes that all other variables, remain constant.

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances and term deposits is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

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

	2018 KD	2017 KD
Cash and cash equivalents	10,211,760	7,679,086
Accounts receivable and other assets*	2,191,148	2,504,903
Loan to a related party	42,054,013	30,022,447
	<u>54,456,921</u>	<u>40,206,436</u>

*Accounts receivable and other assets exclude prepayments, advance to suppliers.

As at 31 December 2018, the Group had 1 customer (2017: 1 customer) that owed the Group KD 2,422,000 before provision (2017: KD 1,720,000 before provision) and accounted for approximately 67% (2017: 49%) of accounts receivable and other assets.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Group does not hold collateral as security against accounts receivable. Refundable deposits are considered integral part of rent receivables and considered in the calculation of impairment. At 31 December 2018, 20% (2017: 18%) of the Groups rent receivable are covered by refundable deposits. These credit enhancements obtained by the Group resulted in a decrease in the ECL as at 31 December). ECL on rent receivable is calculated using simplified approach whereas for counter fees and other receivable ECL is calculated using general approach as life time ECL.

The following table shows about the credit risk exposure on the Group's rent receivable assets using a provision matrix:

	Total KD	Past due but not impaired			
		1 – 30 days KD	31 – 60 days KD	61 – 90 days KD	Over 90 days KD
Expected credit loss rate		15%	15%	15%	57%
As at 31 December 2018	721,058	34,670	18,092	6,601	661,695

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.2 Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding expected credit losses in relation to counter fees and other receivables are as follows:

2018	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Gross carrying amount as at 31 December 2018	-	-	3,022,424	3,022,424
2018	KD Stage 1	KD Stage 2	KD Stage 3	KD Total
ECL allowance as at 1 January 2018	-	-	775,400	775,400
Charge for the year	-	-	259,740	259,740
As at 31 December 2018	-	-	1,035,140	1,035,140

18.3 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. Group's debt will mature in less than one year at 31 December 2018 based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding.

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

2018	On demand KD	Within 3 months KD	3 – 12 months KD	Total KD
Accounts payable and other liabilities*	390,930	1,463,998	2,973,434	4,828,362
Loans and borrowings	-	-	4,400,000	4,400,000
	<u>390,930</u>	<u>1,463,998</u>	<u>7,373,434</u>	<u>9,228,362</u>
2017	On demand KD	Within 3 months KD	3 – 12 months KD	Total KD
Accounts payable and other liabilities*	<u>309,697</u>	<u>1,106,526</u>	<u>3,016,776</u>	<u>4,432,999</u>

*Account payables and other liabilities exclude rent received in advance.

19 CAPITAL MANAGEMENT

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

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, transact with treasury shares, issue new shares, or sell assets to reduce debt. Capital comprises equity attributable to the Parent Company, excluding statutory reserve and measured at KD 46,310,332 as at 31 December 2018 (2017: KD 33,840,899).

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20 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of accounts receivables and other assets, cash and cash equivalents and loan to a related party. Financial liabilities consist of loans and borrowings, accounts payables and other liabilities excluding rent received in advance. The management assesses that the carrying amount of financial instruments is a reasonable approximation of fair value.

Loan to a related party is classified as Level 3 upon the implementation of IFRS 9 (Note 2.2).

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

<i>31 December 2018</i>	<i>As at 1 January KD</i>	<i>IFRS 9 transition adjustment KD</i>	<i>Total gains recognised in profit or loss KD</i>	<i>Net (sales) and purchases KD</i>	<i>At 31 December KD</i>
Loan to a related party	30,022,447	43,781	269,321	11,718,464	42,054,013

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

Significant unobservable valuation inputs	Inputs	Change	Sensitivity of the input to fair value KD
Exit yield	7%	+ 0.5%	(3,394,459)
		- 0.5%	3,854,577
Discount rate	10%	+ 0.5%	(3,344,924)
		- 0.5%	3,428,424