

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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 2019, 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 2019, 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 8 to the consolidated financial statements, which describes the recent developments relating of the legal case and the contract between Parent Company and Touristic Enterprise Company ("TEC") regarding a Build- Operate-Transfer ("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. In addition to the matters described in the emphasis of matter paragraph, we have determined the matters described below to be as key audit matters to be reported in our report. 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.

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 an associate, the management evaluates these terms on each reporting period. 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)

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 an associate in Note 14 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities in Note 21.

Other information included in the Group's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 2019 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

12 March 2020
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	<i>Notes</i>	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Revenues	6	13,419,391	13,716,188
Operating costs		<u>(1,186,299)</u>	<u>(1,165,767)</u>
GROSS PROFIT		12,233,092	12,550,421
General and administrative expenses		(2,246,756)	(2,133,543)
Salaries and employee benefits		(1,334,305)	(1,198,110)
Share of results of an associate	5	(152,773)	(9,555)
Revaluation (loss) gain on loan to an associate		(131,704)	269,322
Net other income		<u>62,007</u>	<u>110,550</u>
Profit before interest, taxation, depreciation and amortisation (“EBITDA”)		8,429,561	9,589,085
Depreciation		(67,684)	(77,793)
Amortisation	8	<u>(3,953,057)</u>	<u>(1,881,508)</u>
Profit before interest and taxation (“EBIT”)		4,408,820	7,629,784
Interest income		6,521,424	3,405,336
Finance cost		<u>(1,531,501)</u>	<u>(775,224)</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		9,398,743	10,259,896
Contribution to KFAS		(88,037)	(101,512)
NLST		(259,211)	(264,884)
Zakat		(103,684)	(116,469)
Board of Directors’ remuneration	17	<u>-</u>	<u>(25,000)</u>
PROFIT FOR THE YEAR		<u>8,947,811</u>	<u>9,752,031</u>
Attributable to:			
Equity holders of the Parent Company		9,330,960	9,710,806
Non-controlling interest	4	<u>(383,149)</u>	<u>41,225</u>
		<u>8,947,811</u>	<u>9,752,031</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	7	<u>59.91 Fils</u>	<u>80.16 fils</u>

The attached notes 1 to 21 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 2019

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Profit for the year	8,947,811	9,752,031
Other comprehensive loss:		
<i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:</i>		
Foreign currency translation adjustment	(14,749)	5,208
Share of other comprehensive loss of an associate	(364,159)	(36,609)
Other comprehensive loss for the year	(378,908)	(31,401)
Total comprehensive income for the year	8,568,903	9,720,630
Attributable to:		
Equity holders of the Parent Company	8,952,052	9,679,405
Non-controlling interests	(383,149)	41,225
Total comprehensive income for the year	8,568,903	9,720,630

The attached notes 1 to 21 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 2019

	Notes	2019 KD	2018 KD
ASSETS			
Non-current assets			
Property and equipment		174,062	216,407
Intangible assets	8	9,494,470	8,513,402
Investment in an associate	5	6,007,664	6,539,345
Loan to an associate	14	98,732,145	42,054,013
		<u>114,408,341</u>	<u>57,323,167</u>
Current assets			
Accounts receivable and other assets	9	3,627,292	3,635,790
Cash and cash equivalents	10	1,511,414	10,211,760
		<u>5,138,706</u>	<u>13,847,550</u>
TOTAL ASSETS		<u>119,547,047</u>	<u>71,170,717</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	11 (a)	16,450,000	13,175,000
Share premium	11 (a)	42,065,000	27,327,500
Statutory reserve	11 (b)	7,000,058	6,021,868
Treasury shares	12	(1,544,594)	(1,544,594)
Other reserve		(661,746)	(297,587)
Foreign currency translation reserve		(9,541)	5,208
Retained earnings		12,644,385	7,644,805
		<u>75,943,562</u>	<u>52,332,200</u>
Equity attributable to equity holders of the Parent Company		<u>75,943,562</u>	<u>52,332,200</u>
Non-controlling interest	4	1,746,146	2,129,295
		<u>77,689,708</u>	<u>54,461,495</u>
Total equity		<u>77,689,708</u>	<u>54,461,495</u>
Non-current liabilities			
Loans and borrowings	15	25,752,074	-
Accounts payable and other liabilities	13	7,683,881	3,532,872
Employees' end of service benefits		536,177	459,844
		<u>33,972,132</u>	<u>3,992,716</u>
Current liabilities			
Loans and borrowings	15	-	4,400,000
Accounts payable and other liabilities	13	7,885,207	8,316,506
		<u>7,885,207</u>	<u>12,716,506</u>
Total liabilities		<u>41,857,339</u>	<u>16,709,222</u>
TOTAL EQUITY AND LIABILITIES		<u>119,547,047</u>	<u>71,170,717</u>

Tarek Ibrahim Mohammad Al Mousa
Chairman

Nadia Abdullah Mohammad Akil
CEO & Vice Chairperson

The attached notes 1 to 21 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 2019

	<i>Notes</i>	2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit for the year before KFAS, NLST, Zakat and after Board of Directors' Remuneration		9,398,743	10,234,896
Adjustments for:			
Depreciation		67,684	77,793
Amortisation	8	3,953,057	1,881,508
Provision for employees' end of service benefits		90,309	80,303
Share of results of an associate		152,773	9,555
Interest income		(6,521,424)	(3,405,336)
Allowance for expected credit loss	9	541,390	405,950
Revaluation (loss) gain on loan to an associate		131,704	(269,322)
Loss on write off of intangible asset		34,537	-
Finance cost		1,531,501	775,224
		<u>9,380,274</u>	<u>9,790,571</u>
Working capital adjustments:			
Accounts receivable and other assets		(539,638)	(1,454,632)
Accounts payable and other liabilities		(1,774,974)	(535,211)
		<u>7,065,662</u>	<u>7,800,728</u>
Employees' end of service benefits paid		(13,976)	(20,449)
Taxes paid		(271,532)	(357,195)
		<u>6,780,154</u>	<u>7,423,084</u>
Net cash flows from operating activities		<u>6,780,154</u>	<u>7,423,084</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(30,371)	(10,620)
Additions to intangible assets		(369,303)	(170,598)
Loan to an associate		(50,471,197)	(13,726,552)
Interest income received		189,531	282,322
		<u>(50,681,340)</u>	<u>(13,625,448)</u>
Net cash flows used in investing activities		<u>(50,681,340)</u>	<u>(13,625,448)</u>
FINANCING ACTIVITIES			
Proceeds from rights issue		18,012,500	20,002,500
Proceeds from loans and borrowings		28,252,074	5,900,000
Repayments of loans and borrowings		(6,900,000)	(1,500,000)
Dividend paid	17	(3,353,190)	(15,358,009)
Finance cost paid		(810,544)	(309,453)
		<u>35,200,840</u>	<u>8,735,038</u>
Cash flows from financing activities		<u>35,200,840</u>	<u>8,735,038</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(8,700,346)	2,532,674
Cash and cash equivalents as at 1 January		10,211,760	7,679,086
		<u>1,511,414</u>	<u>10,211,760</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	10	1,511,414	10,211,760
Non-cash items excluded from the statement of cash flows:			
Adjustment to intangible assets related to service concession arrangements	8	(4,594,327)	-
Adjustment to accounts payable and other liabilities related to service concession arrangements		4,594,327	-
Adjustment to intangible asset related to transfer of asset	8	(5,032)	-
Adjustment to property and equipment related to transfer of asset		5,032	-

The attached notes 1 to 21 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 2019

	Attributable to equity holders of the Parent Company										Total KD
	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 interest KD		
As at 1 January 2019	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	
Profit (loss) for the year	-	-	-	-	-	-	9,330,960	9,330,960	(383,149)	8,947,811	
Other comprehensive loss for the year	-	-	-	-	(364,159)	(14,749)	-	(378,908)	-	(378,908)	
Total comprehensive (loss) income for the year	-	-	-	-	(364,159)	(14,749)	9,330,960	8,952,052	(383,149)	8,568,903	
Dividend paid (Note 17)	-	-	-	-	-	-	(3,353,190)	(3,353,190)	-	(3,353,190)	
Issuance of share capital (Note 11 (a))	3,275,000	14,737,500	-	-	-	-	-	18,012,500	-	18,012,500	
Transfer to statutory reserve	-	-	978,190	-	-	-	(978,190)	-	-	-	
As at 31 December 2019	16,450,000	42,065,000	7,000,058	(1,544,594)	(661,746)	(9,541)	12,644,385	75,943,562	1,746,146	77,689,708	
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	-	-	-	-	-	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 (loss) income for the year	-	-	-	-	(36,609)	5,208	-	(31,401)	-	(31,401)	
Total comprehensive (loss) income for the year	-	-	-	-	(36,609)	5,208	9,710,806	9,679,405	41,225	9,720,630	
Dividend paid (Note 17)	-	-	-	-	-	-	(15,358,009)	(15,358,009)	-	(15,358,009)	
Issuance of share capital (Note 11 (a))	3,175,000	16,827,500	1,021,868	-	-	-	-	20,002,500	-	20,002,500	
Transfer to statutory reserve	-	-	6,021,868	-	-	-	(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	

The attached notes 1 to 21 form part of these consolidated financial statements.

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 2019 were authorised for issue by the board of directors on 12 March 2020. 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 an associate 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.

The consolidated financial statements provide comparative information in respect of the previous period. Certain comparative information has been reclassified and represented to conform to classification in the current period. Such reclassification has been made to improve the quality of information presented.

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 2019.

IFRS 16 ‘Leases’

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 'Leases' (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

b) Summary of new accounting policies

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

The Group applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KD 1,500). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

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

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

Adoption of IFRS 16 did not have an impact on the consolidated financial position of the Group and results for the year ended 31 December 2019.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

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.

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 statement of income. Any investment retained is recognized at fair value.

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 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The consolidated financial statements of the Group include:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Effective % equity interest</i>	
			<i>2019</i>	<i>2018</i>
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")	Kuwait	Real estate and property development	100.00	100.00
Al Arfaj Real Estate Company K.S.C. (Closed) ("Arfaj")	Kuwait	Real estate and property development	100.00	100.00
<i>Held indirectly through Arfaj</i>				
Arfaj Limited	United Arab Emirates	Real estate and property development	100.00	100.00

Revenue recognition

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

Rental income

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

Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in rental revenue in the consolidated statement of income due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Services income

The Group enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants (i.e., customers) including common area maintenance services (such as cleaning and security), as well as other services such as aircraft ground handling. The consideration charged for these services includes fees charged based on a percentage and reimbursement of certain expenses incurred. These services are separately invoiced.

Interest income

Interest income is presented separately from revenue from contracts with customers in the consolidated statement of income and is over recognised at it accrues using the 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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
Sheikh Saa'd Terminal	12 years (2018: 16 years)
Discovery Mall*	10 years
Kuwait Airways Terminal-4 Parking project	5 years

*Fully amortised as at 31 December 2019

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 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.

Service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Service concession arrangements (continued)

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

When concession grantor or the delegating authority requires fixed payments in return for the right to use of pre-existing infrastructure, the Group applies the following in respect to the fixed payments:

- the recognition of a liability equal to the present value of payments over the term of the concession arrangement;
- offset by the recognition of an intangible asset, where the concession arrangement is recognized using the “intangible asset model”, representing the right to charge users of the public service.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

Investment in an associate

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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.

'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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

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

- 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:

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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 an associate 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the 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.

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 statement of income.

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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. 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 income 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 to the 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

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.

Equity accounting of entities in which the Group holds less than 20% holding

The Group assessed that the voting rights in Naples Topco Limited ("Naples") are dominant factor in deciding who has significant influence on entity. The Group has a representation on Naples's board of directors and the Group's consent is required for all major operational decisions. Accordingly, the Group has considered the significant influence achieved through absolute voting rights is sufficient to give it the practical ability to direct the relevant activities of the investee company, despite the fact they have less than 20% holding.

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.

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 financial assets at amortised cost

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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.

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 activities</i>	<i>Ownership %</i>	
			<i>2019</i>	<i>2018</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>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
<i>Summarised statement of income for the year ended 31 December:</i>		
Revenues	1,919,119	2,197,719
Operating costs	(761,484)	(761,277)
Net operating expenses	(386,805)	(538,384)
Other income	59,795	47,228
EBITDA	830,625	945,286
Depreciation and amortisation	(1,976,747)	(821,968)
(Loss) profit for the year	(1,146,122)	123,318
Total comprehensive (loss) profit for year	(1,146,122)	123,318
Attributable to non-controlling interests	(383,149)	41,225
<i>Summarised statement of financial position as at 31 December:</i>		
	<i>RAC</i>	<i>RAC</i>
	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
Intangible asset and other non-current assets (non-current)	4,612,866	5,603,694
Accounts receivable and other assets and cash and cash equivalents (current)	1,113,784	1,337,876
Employees' end of service benefits (non-current)	(50,366)	(47,750)
Accounts payable and other liabilities (current)	(453,164)	(524,577)
Total equity	5,223,120	6,369,243
Attributable to:		
Equity holders of Parent Company	3,476,974	4,239,948
Non-controlling interest	1,746,146	2,129,295

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 2019

4 GROUP INFORMATION (continued)

Summarised cash flow information for year ended 31 December:

	<i>RAC</i> <i>2019</i> <i>KD</i>	<i>RAC</i> <i>2018</i> <i>KD</i>
Operating cash flows	816,884	750,000
Investing cash flows	(934,879)	(1,296,968)
Net decrease in cash and cash equivalents	(117,995)	(546,968)

5 INVESTMENT IN AN ASSOCIATE

During the prior year, the Group subscribed for equity interest in Naples through transferring portion of loan to an associate (Note 14) amounting to AED 62M equivalent to KD 5.1M resulting in ownership of 9.47% (2018: 9.47%) to equity. The Group has determined that it exercises significant influence over associate through virtue of board representation.

Summarised financial information of the associate is as follows:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Non-current assets	245,483,860	175,873,116
Current assets	7,608,980	523,409
Non-current liabilities	(180,783,314)	(97,657,951)
Current liabilities	(8,870,625)	(9,685,301)
Equity	63,438,901	69,053,273
Group's share in equity 9.47% (2018: 9.47%) and Group's carrying amount of the investment	6,007,664	6,539,345
Administrative expenses	(1,613,901)	(910,000)
Loss for the year	(1,613,901)	(910,000)
Group's share in the loss for the year*	(152,773)	(9,555)
Other comprehensive loss for the year	(3,843,448)	(3,486,571)
Group's share in other comprehensive income	(364,159)	(36,609)

* Share of results for 2018 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:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Transfer from financial asset available for sale	6,539,345	1,449,198
Contribution during the year	-	5,131,103
Share of results	(152,773)	(9,555)
Share of other comprehensive income	(364,159)	(36,609)
Foreign currency translation adjustment	(14,749)	5,208
As at 31 December	6,007,664	6,539,345

The associate had capital commitments as at 31 December 2019 amounting to KD 37,223,949 and (2018: KD 87,695,146)

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 2019

6 RENTAL AND SERVICE REVENUE

6.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's rental and services revenue:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Rental revenue	7,193,098	7,459,436
Service revenue	6,226,293	6,256,752
	<u>13,419,391</u>	<u>13,716,188</u>

6.2 Contract balances

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Trade receivables (Note 9)	4,743,036	3,964,931
Contract liabilities (Note 13)	5,980,779	7,021,017

7 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>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	9,330,960	9,710,806
Weighted average number of paid up shares	160,579,548	125,971,837
Weighted average number of treasury shares	(4,824,307)	(4,824,307)
Weighted average number of shares, less treasury shares, outstanding during the year	155,755,241	121,147,530
Basic and diluted earnings per share	59.91 fils	80.16 fils

Earnings per share for 2018 has been adjusted to reflect the rights issue during the year (Note 11 (a)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8 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 and Kuwait Airways Terminal 4 car park in accordance with Built-Operate-Transfer (BOT) agreement with the government of Kuwait and have useful life and amortised as disclosed in Note 2.

	2019 KD	2018 KD
Cost:		
As at 1 January	41,777,151	41,606,553
Additions:		
Related to service concession arrangements	4,594,327	-
Transfer from property and equipment	5,032	-
Other additions	369,303	170,598
Write-off of the asset	(69,764)	-
As at 31 December	<u>46,676,049</u>	<u>41,777,151</u>
Amortisation:		
As at 1 January	33,263,749	31,382,241
Related to write-off of the asset	(35,227)	-
Charge for the year	3,953,057	1,881,508
As at 31 December	<u>37,181,579</u>	<u>33,263,749</u>
Net carrying amount:		
As at 31 December	<u><u>9,494,470</u></u>	<u><u>8,513,402</u></u>

Discovery Mall

Included in intangible assets is a fully amortised intangible asset (31 December 2018: KD Nil) that represents the Built-Operate-Transfer (BOT) project for the construction of Discovery Mall (the "Mall"). This Mall was built on 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 based on a TEC letter dated 20 February 2013. 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 a renewal to the contract for an additional period and had subsequently filed a compensation claim. However, TEC filed a lawsuit requesting the Parent Company to withdraw from the Mall and deliver it back to TEC. On 11 February 2015, the First Instance Court ruled in favor of TEC acknowledging the initial expiration of the contract as of 30 June 2013. The Parent Company however appealed the judgment and challenged it to suspend the execution of aforementioned ruling which the Court of Cassation accepted on 24 June 2015. On 10 October 2018, the Court of Appeal confirmed the First Instance ruling in favour of TEC and requested the Parent Company to evacuate the Mall and hand it over to TEC. The Parent Company challenged the ruling in the Cassation Court. On 8 January 2020 subsequent to the year-end, the Court of Cassation rejected the Parent Company's challenge to this decision and ruled in favour of TEC. However, on 13 February 2020 and subsequent to the above ruling, the Parent Company and TEC further agreed to postpone the handover of the mall for a further period of six months starting from 12 February 2020 until 12 August 2020 in return for a fixed payment of KD 75 thousand to TEC. Accordingly, management continues to operate the Mall and is entitled to do so by virtue of the above postponement.

Sheikh Saa'd Terminal

Included in intangible assets an amount of KD 2,298,629 (2018: KD 4,230,853) that represents the carrying value of Built-Operate-Transfer (BOT) project for the construction of Sheikh Saa'd Terminal (the "terminal"). As required by the accounting policies adopted by the Group, management is required to annually reassess the useful life of the terminal which resulted in a change in its useful life from 16 to 12 years. This change is to properly reflect the expected pattern in consumption of the terminal's future economic benefits.

This change in estimate was prospectively applied as on 1 January 2019 and resulted in an increase in amortisation expense by KD 1,149,314. Had the accounting estimate not been changed, the reported 'profit for the year' would have been higher by KD 1,149,314.

Commercial complex of Kuwait International Airport

Included in intangible assets is an amount of KD 3,193,156 (31 December 2018: KD 4,282,549) that represents the carrying value of Build-Operate-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.

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 2019

8 INTANGIBLE ASSETS (continued)

Kuwait Airways Terminal-4 Parking project

On 25 November 2018, the Group entered into a service concession arrangement with Directorate General of Civil Aviation of Kuwait (the "Grantor") to operate a pre-existing parking and related facilities at the new Kuwait Airways dedicated Terminal 4 ("Facilities").

Under the terms of the agreement, the Group will operate and make facilities available to the public for a period of five years, starting from 9 February 2019.

As at 31 December 2019, intangible assets include KD 4,002,685 (2018: Nil) relating to this arrangement and liability of KD 3,873,710 which represents the minimum fixed payments that will be paid by the Group to the Grantor over the term of the concession arrangement, discounted at a rate of 6%

9 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
Rent receivables	1,616,036	1,542,931
Counter fee receivable	3,127,000	2,422,000
Other receivables	460,007	600,424
Prepayments	686,755	826,633
	<u>5,889,798</u>	<u>5,391,988</u>
Allowance for expected credit losses	<u>(2,262,506)</u>	<u>(1,756,198)</u>
	<u>3,627,292</u>	<u>3,635,790</u>

Movements in the allowance for expected credit losses of receivables is as follows:

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	1,756,198	448,296
Transition adjustment to IFRS 9	-	912,076
Charge for the year	541,390	405,950
Amounts written off	(35,082)	(10,124)
As at 31 December	<u>2,262,506</u>	<u>1,756,198</u>

10 CASH AND CASH EQUIVALENTS

	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
Cash and bank balances	1,244,756	3,168,641
Short-term deposits	266,658	7,043,119
Cash and cash equivalents	<u>1,511,414</u>	<u>10,211,760</u>

Short term deposits are denominated in KD and carry an effective interest rate of 2.60% (2018: 1.75% to 2.25%) per annum with maturity less than three months from reporting date.

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

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11 SHARE CAPITAL AND RESERVES

a) Share capital and share premium

	<i>2019</i> <i>Shares</i>	<i>2018</i> <i>Shares</i>
Authorised shares		
Ordinary shares of 100 fils each	<u>382,500,000</u>	<u>382,500,000</u>
Ordinary shares issued and fully paid		
As at 1 January	131,750,000	100,000,000
Issued during the year	<u>32,750,000</u>	<u>31,750,000</u>
	<u>164,500,000</u>	<u>131,750,000</u>

During the year, the Parent Company made a rights issue to its shareholders at KD 0.550 per share (31 December 2018: KD 0.630 per share) made up of KD 0.100 share capital (31 December 2018: KD 0.100 share capital) and KD 0.450 share premium (31 December 2018: KD 0.530 share premium). A total of 32,750,000 shares (31 December 2018: 31,750,000 share) were issued resulting in an increase in share capital by KD 3,275,000 (31 December 2018: KD 3,175,000) and an increase in the share premium account by KD 14,737,500 (31 December 2018: KD 16,827,500).

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.

12 TREASURY SHARES

	<i>2019</i>	<i>2018</i>
Number of treasury shares	<u>4,824,307</u>	<u>4,824,307</u>
Percentage of issued shares (%)	<u>3%</u>	<u>4%</u>
Market value (KD)	<u>2,470,045</u>	<u>3,063,435</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.

13 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Accounts payable	2,156,489	1,382,294
Accrued expenses	1,444,096	1,192,353
Contract liabilities*	5,980,779	7,021,017
Provision for staff leave	112,740	120,524
Tenant refundable deposits	2,002,756	2,107,528
Other payables	3,872,228	25,662
	<u>15,569,088</u>	<u>11,849,378</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 ACCOUNTS PAYABLE AND OTHER LIABILITIES (continued)

	2019 KD	2018 KD
Classified as:		
Non-current liabilities	7,683,881	3,532,872
Current liabilities	7,885,207	8,316,506
	<u>15,569,088</u>	<u>11,849,378</u>

* Contract liabilities constitute rent received in advance by the Group from tenants in accordance with rental agreements beyond 12 months of the reporting period amounting to KD 2,753,868 (2018: KD 3,532,872).

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.

For explanation on the Group's liquidity risk management process, refer to Note 19.3.

14 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>Ultimate parent company</i> KD	<i>Other related parties</i> KD	2019 KD	2018 KD
Consolidated statement of income :				
Revenues	-	280,555	280,555	72,730
Operating costs	-	(242,803)	(242,803)	(262,700)
General and administrative expenses	-	(16,680)	(16,680)	(19,773)
Finance cost	(348,258)	-	(348,258)	-
Share of results in an associate	-	(152,773)	(152,773)	-
Interest income	-	6,338,639	6,338,639	3,123,014
	<i>Ultimate parent company</i> KD	<i>Other related parties</i> KD	2019 KD	2018 KD
Consolidated statement of financial position:				
Amounts due from a related party (included in accounts receivable and other assets)	-	103,213	103,213	-
Amounts due to related parties (included in accounts payable and other liabilities)	(819,683)	-	(819,683)	(390,930)
Investment in an associate (Note 5)	-	6,007,664	6,007,664	6,539,345
Loan to an associate*	-	98,732,145	98,732,145	42,054,013

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 an associate 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 6,580,301(2018: KD 6,580,301) in the equity of the Project out of the Group's capital commitment.

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

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14 RELATED PARTY DISCLOSURES (continued)

Movement in loan to an associate during the year is as follows:

	2019 KD	2018 KD
As at 1 January	42,054,013	30,022,447
Transition adjustment to IFRS 9	-	43,781
Additional contribution	50,471,197	8,595,449
Interest accrued	6,338,639	3,123,014
Change in fair value	-	(24,378)
Foreign currency translation adjustments	(131,704)	293,700
	<u>98,732,145</u>	<u>42,054,013</u>

Compensation of key management personnel

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

	2019 KD	2018 KD
Short-term benefits	209,957	204,387
Employees' end of service benefits	28,791	21,267
	<u>238,748</u>	<u>225,654</u>

15 LOANS AND BORROWINGS

	2019 KD	2018 KD
Borrowing facility	<u>25,752,074</u>	<u>4,400,000</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 14), and for working capital requirements of the Parent Company. During the year, an amount of KD 28,252,074 has been withdrawn and KD 6,900,000 is repaid. This loan facility bears an average finance cost of 6% (31 December 2018: 6%) per annum and is repayable on 31 December 2022.

16 COMMITMENTS AND CONTINGENCIES

Capital commitments

The Shaikh Saad Terminal, Discovery Mall, car park and commercial complex of Kuwait International Airport (Note 8) are constructed in accordance with service concession agreement and annual payment of KD 800,235 (2018: KD 872,235) has been made. The payments for the future periods are as follows:

	2019 KD	2018 KD
Within one year	800,235	872,235
After one year but no later than five years	2,019,515	2,819,750
	<u>2,819,750</u>	<u>3,691,985</u>

Contingencies

As at 31 December 2019, the Group had contingent liabilities, amounting to KD 11,648,075 (2018: KD 37,344,054), in respect of bank guarantees arising in the ordinary course of business.

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise accounts payable and other liabilities and loans and 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 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.

19.1 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 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 its loan to an associate in foreign currency.

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	
		2019 KD	2018 KD
AED	+5%	4,804,903	2,102,701

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 81,618 (2018: KD 39,257). This analysis assumes that all other variables, remain constant.

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19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.2 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:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Cash and cash equivalents	1,511,414	10,211,760
Accounts receivable and other assets*	2,455,316	2,191,148
Loan to an associate	98,732,145	42,054,013
	<u>102,698,875</u>	<u>54,456,921</u>

*Accounts receivable and other assets exclude prepayments.

Concentration of maximum exposure to credit risk

As at 31 December 2019, the Group had 1 customer (2018: 1 customer) that owed the Group KD 1,970,010 (2018: KD 1,525,860) and accounted for approximately 54% (2018: 42%) of accounts receivable and other assets. This concentration arises predominantly from transaction with a governmental entity, which the Group considers it is a customers with low credit risk.

Trade receivables

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. Tenant refundable deposits are considered integral part of rent receivables and considered in the calculation of impairment. At 31 December 2019, 14% (2018: 20%) 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.

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

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19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.2 Credit risk (continued)

Concentration of maximum exposure to credit risk (continued)

	<i>Trade receivables</i>				<i>Total KD</i>
	<i>Past due but not impaired</i>				
	<i>1 – 30 days KD</i>	<i>31 – 60 days KD</i>	<i>61 – 90 days KD</i>	<i>Over 90 days KD</i>	
2019					
Expected credit loss rate	38%	55%	51%	43%	43%
Estimated gross carrying amount at default	398,127	147,566	129,014	4,528,336	5,203,043
Estimated credit loss	149,618	80,681	65,294	1,966,913	2,262,506
Net amount	<u>248,509</u>	<u>66,885</u>	<u>63,720</u>	<u>2,561,423</u>	<u>2,940,537</u>
2018					
Expected credit loss rate	13%	18%	18%	44%	38%
Estimated gross carrying amount at default	435,676	228,717	161,657	3,739,305	4,565,355
Estimated credit loss	56,870	40,292	28,801	1,630,235	1,756,198
	<u>378,806</u>	<u>188,425</u>	<u>132,856</u>	<u>2,109,070</u>	<u>2,809,157</u>

19.3 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. 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.

	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 – 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
2019					
Accounts payable and other liabilities*	317,254	6,381,393	2,889,662	-	9,588,309
Loans and borrowings	-	-	2,078,825	29,608,998	31,687,823
	<u>317,254</u>	<u>6,381,393</u>	<u>4,968,487</u>	<u>29,608,998</u>	<u>41,276,132</u>
2018					
Accounts payable and other liabilities*	390,930	1,463,998	2,973,434	-	4,828,362
Loans and borrowings	-	-	4,722,489	-	4,722,489
	<u>390,930</u>	<u>1,463,998</u>	<u>7,695,923</u>	<u>-</u>	<u>9,550,851</u>

*Account payables and other liabilities exclude contract liabilities.

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20 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 68,943,504 as at 31 December 2019 (2018: KD 46,310,332).

21 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 an associate. 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 except for loan to an associate.

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

	<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>
31 December 2019					
Loan to an associate	42,054,013	-	(131,704)	56,809,836	98,732,145
	<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>
31 December 2018					
Loan to an associate	30,022,447	43,781	269,321	11,718,464	42,054,013

Description of significant unobservable inputs to valuation:

The debt instrument has been valued based on the residual land value of the investee's major asset, using the discounted cash flow method.

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	
	2019	2018		2019 KD	2018 KD
Exit yield	8%	7%	+ 0.5%	(7,461,931)	(3,394,459)
			- 0.5%	8,488,666	3,854,577
Discount rate	10%-11%	10%	+ 0.5%	(5,124,667)	(3,344,924)
			- 0.5%	5,124,667	3,428,424

Significant increases (decreases) in estimated exit yield and discount rate in isolation would result in a significantly higher (lower) fair value of the loan.

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated.