

ALKFFA HOLDING B.S.C. (c)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2018

ALKFFA HOLDING B.S.C. (c)
YEAR ENDED DECEMBER 31, 2018

<u>Commercial Registration No.</u>	39646-1
<u>Chairman</u>	Mr. Jamal Fahad Al Nafisi
<u>Vice Chairman & CEO</u>	Mr. Majed Yousef Ahmed Al-Ali
<u>Directors</u>	Sheikh Yousif Abdulla Al-Sabah Mr. Abdulla Mohammad Al Rifaie (up to November 11, 2018) Mr. Yahya Salem Al Harees Mr. Ebrahim Shoaib (effective from November 11, 2018)
<u>Registered Office</u>	Seef Star Building P.O. Box 11818 Seef Destrict, Kingdom of Bahrain.
<u>Bankers</u>	Bank of Bahrain and Kuwait Al Salam Bank – Bahrain Khaleeji Commercial Bank
<u>Auditor</u>	Deloitte & Touche – Middle East, P.O. Box 421, Manama, Kingdom of Bahrain.

ALKFFA HOLDING B.S.C. (c)
YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
Shari'a Supervisory Board Report	I
Report of the Board of Directors	A & B
Independent Auditor's Report	1 to 3
Financial Statements:	
Statement of Financial Position	4
Statement of profit or loss and other comprehensive income	5
Statement of Cash Flows	6
Statement of Changes in Owners' Equity	7
Notes to the Financial Statements	8 - 24

**Sharia Supervisory Board Report on the activities of AL KAFFA HOLDING
For the Financial Year Ended on 31 December 2018**

In The Name of Allah, the Most Beneficent, the Most Merciful, Prayers and Peace are upon the last messenger, our prophet Mohammed, his family and companions.

TO the Shareholders of AL KAFFA HOLDING,

Acting as Sharia Supervisory Committee pursuant to the appointment resolution passed by the General Assembly of the Company, we are required to provide the following report:

The Sharia board of AL KAFFA HOLDING has reviewed the Company principles, contracts or agreements related transactions, and applications submitted by the Company for the financial year ended on 31 December 2018, and upon comparing them with the fatwa and rulings issued during the financial year ended on 31 December 2018, we found them compatible with the above mentioned fatwa and rulings.

We performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that AL KAFFA HOLDING company has not violated Islamic Shari rules and principles.

The Sharia board believes that it has expressed its opinion in respect of the activities carried out by AL KAFFA HOLDING Company, and the management is responsible for ensuring that the Company conducts its business in accordance with Islamic Shari, However, our responsibility is limited to form an independent opinion based on our review of the activities and operations conducted by AL KAFFA HOLDING Company.

In our opinion:

The contracts, transactions and dealings entered into by the Company during the financial year ended on 31 December 2018 that we have reviewed are in compliance with the Islamic Shari rules and principles.

The calculation of Zakat is in compliance with Islamic Shari rules and principles.

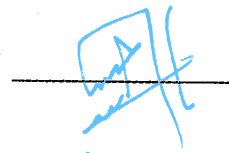
The Sharia board has also discussed with the representative of the Company the financial statements for financial year ended on 31 December 2018, and the Sharia board is satisfied that these statements are in compliance with the Islamic Sharia.

This report has been prepared based on the information provided by the Company, The Sharia board is satisfied that the Company activities are in compliance with the Islamic Sharia.

Prayers and Peace are upon the last messenger, our prophet Mohammed, his family and companions.

Sheikh Dr. Khalid Shuja'a Al-Otaibi.

Chairman



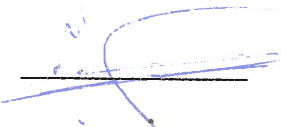
Sheikh Dr. Murad Bou Daia.

Member



Sheikh Dr. Dawoud Salman Bin Essa.

Executive Member



REPORT OF THE BOARD OF DIRECTORS

For the year ended December 31, 2018

US dollars

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammed.

Dear Shareholders

The Directors have pleasure to submit their report, together with the financial statements of ALKFFA HOLDING B.S.C. (C) for the year ended December 31, 2018.

Overview:

ALKFFA HOLDING B.S.C (C) (Previously known as Investors Bank B.S.C. (C)) (the "Company") was established in the Kingdom of Bahrain as an exempt company on December 2, 1997. The legal status of the Company was changed to a closed Bahraini joint stock company on July 3, 2005. The Company was operating under an investment banking license (Wholesale Islamic Bank). In the Extraordinary General Assembly of shareholders held on September 22, 2016, it was resolved to surrender the banking license and to discontinue all the Company's banking operations. The banking license was cancelled effective January 31, 2017.

Principal Activities

The principal activities of the Company include investment transactions, participating in equity investments in projects in conformity with the Islamic Sharia. The Company is carrying on the activities of holding companies.

The company focuses on generating liquidity through its real estate portfolio.

Financial Position and Results

The detailed financial position of the Company at December 31, 2018 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2018	2017
Total assets	47,663,700	49,382,289
Total equity	42,504,761	42,363,949
Net profit for the year	307,472	12,274,264

Movement in retained earnings	2018	2017
Balance at January 1	173,580	(58,900,966)
Reduction on the share capital / statutory reserve	-	48,027,709
Transition adjustment on adoption of IFRS 9	3,578	-
Net profit for the year	307,472	12,274,264
Transfer to statutory reserve	(30,747)	(1,227,427)
Balance at December 31	453,883	173,580

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended December 31, 2018 (December 31, 2017: nil).

REPORT OF THE BOARD OF DIRECTORS (continued)

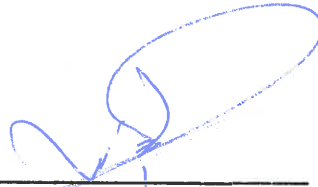
Board of Directors

The following are the directors of the company as at December 31, 2018:

Name	Title	Independent/ Non Independent
Mr. Jamal Fahad Al Nafisi	Chairman	Non Independent
Mr. Majed Yousef Ahmed Al-Ali	Vice Chairman & CEO	Non Independent
Sheikh Yousif Abdulla Al-Sabah	Member	Independent
Mr. Yahya Salem Al Harees	Member	Independent
Mr. Ebrahim Shoaib Shoaib	Member	Independent

Thanks

We wish to express our gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, The King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa bin Salman Al Khalifa, The Prime Minister of the Kingdom of Bahrain and His Royal Highness Prince Salman bin Hamad Al Khalifa, The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain, the Ministry of Industry, Commerce and Tourism. Gratitude is also extended to the Sharia'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.



Mr. Jamal Fahad Al Nafisi
Chairman

March 31, 2019



Mr. Majed Yousef Ahmed Al-Ali
Vice Chairman & CEO

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Alkffa Holding B.S.C. (c)
Kingdom of Bahrain

Report on the Financial Statements

Qualified Opinion

We have audited the accompanying statement of financial position of Alkffa Holding B.S.C. (c) (Previously Known as Investors Bank B.S.C. (c)) (the "Company") as at December 31, 2018, and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

- a) Included within investment properties on the statement of financial position as at December 31, 2018 are buildings with carrying values amounting to USD 10,670,079. Due to lack of underlying details regarding the basis for valuation applied, we were unable to conclude on the value adopted by management as included in the external valuation report. Note 9, to the accompanying financial statements, does not disclose the basis for market value for 2018. Consequently we were unable to determine whether any adjustments to these amounts are necessary.
- b) Included within investments in equity securities on the statement of financial position at December 31 2018 are investments amounting to USD 14,966,546 and further disclosed in note 6.c to the accompanying financial statements. We were unable to obtain sufficient appropriate audit evidence to support the external valuation of these investments due to lack of underlying details and substantiation. Consequently we were unable to determine whether any adjustments to these amounts and disclosures are necessary.

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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the Company's financial statements in the Kingdom of Bahrain and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

Management is responsible for the other information. The other information comprises Unified Shari'a Supervisory Board Report and Directors' report, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Board of Directors for the Financial Statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 financial statements or, if such disclosure 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law, we report that:

- (a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
- (b) the financial information contained in the Board of Directors' report is consistent with the financial statements;
- (c) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's Memorandum and Articles of Association during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Company or on its consolidated financial position; and
- (d) except as stated in the basis for qualified opinion under our report on the financial statements, satisfactory explanations and information have been provided to us by Management in response to all our requests.



DELOITTE & TOUCHE – MIDDLE EAST
Partner Registration No. 184
Manama, Kingdom of Bahrain

April 7, 2019

ALKFFA HOLDING B.S.C. (c)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

		December 31,	
	Notes	2018	2017
		USD	USD
<u>ASSETS</u>			
Current assets			
Cash and banks	5	512,329	2,202,726
Investments at FVTPL	6	14,994,025	-
Investments at FVTPL	6	-	2,784,642
Investments available-for-sale	6	-	12,934,737
Trade receivables and other assets	8	88,730	385,581
Total current assets		15,595,084	18,307,686
Non-current assets			
Investments properties	9	24,069,764	26,496,210
Deferred payment sale receivable	7	3,680,203	3,680,203
Investments designated at FVTOCI	6	3,425,107	-
Dividend receivables	7	887,733	887,733
Furniture & fixtures		5,809	10,457
Total non-current assets		32,068,616	31,074,603
Total Assets		47,663,700	49,382,289
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES			
Current liabilities			
Murabaha payable - Current portion	10	369,874	3,229,064
Regularization accounts and other liabilities	11	247,016	119,074
Total current liabilities		616,890	3,348,138
Non-current liabilities			
Due to a financial institution	7	3,670,202	3,670,202
Murabaha payable - Non-current portion	10	871,847	-
Total non-current liabilities		4,542,049	3,670,202
Total liabilities		5,158,939	7,018,340
EQUITY			
Share capital	12	40,000,000	40,000,000
Statutory reserve	12	1,258,174	1,227,427
Investments fair value reserve		792,704	962,942
Retained earnings		453,883	173,580
Total equity		42,504,761	42,363,949
Total liabilities and equity		47,663,700	49,382,289

The financial statements on pages 4 to 24 were approved and authorized for issue by the Board of Directors on March 31, 2019 and signed on its behalf by:

Mr. Jamal Fahad Al Nafisi
Chairman

Mr. Majed Yousef Ahmed Al-Ali
Vice Chairman & CEO

The accompanying notes form an integral part of these financial statements

ALKFFA HOLDING B.S.C. (c)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2018

	Notes	Year ended December 31,	
		2018 USD	2017 USD
Rental income from investment properties	9	401,404	1,749,853
Fair value gain on investments at FVTPL	6	2,866,413	4,900
Fair value (loss) gain on investments properties	9	(2,426,446)	868,218
Dividends income on investments at FVTPL		9,081	-
Dividends income on investments at FVTOCI		7,958	-
Dividends income on investments		-	6,620
Commodity Murabaha revenues		6,665	16,836
Other income, net	13	42,514	3,911
Total net revenues		<u>907,589</u>	<u>2,650,338</u>
Salaries and related charges	14	(539,734)	(128,542)
Administration and general expenses	15	(303,097)	(551,324)
Depreciation		(4,648)	(19,674)
Total operating expenses		<u>(847,479)</u>	<u>(699,540)</u>
Net profit before impairment		60,110	1,950,798
Allowance for impairment of rent receivable	8	(75,544)	-
Write-off portion of Murabaha payable	10	322,906	-
Write-back of impairment on financial assets	16	-	10,323,466
Net profit for the year		307,472	12,274,264
Other Comprehensive Income			
<i>Items that will not reclassified subsequently to profit or loss:</i>			
Fair value change on equity investments at FVTOCI	6	(166,660)	-
<i>Items that may reclassified subsequently to profit or loss:</i>			
Fair value change on available-for-sale investments	6	-	379,150
Total comprehensive income for the year		<u>140,812</u>	<u>12,653,414</u>

Mr. Jamal Fahad Al Nafisi
Chairman

Mr. Majed Yousef Ahmed Al-Ali
Vice Chairman

The accompanying notes form an integral part of these financial statements

ALKFFA HOLDING B.S.C. (c)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	Notes	Year ended December 31,	
		2018	2017
		USD	USD
Cash flows from operating activities:			
Net profit for the year		307,472	12,274,264
Adjustments for:			
Depreciation		4,648	19,674
Write-back of impairment of financial assets	16	-	(10,323,466)
Write-off portion of Murabaha payable	10	(322,906)	-
Allowance for impairment of rent receivable	8	75,544	-
Fair value gain on investments at FVTPL	6	(2,866,413)	(4,900)
Fair value loss (gain) on investments properties	9	2,426,446	(868,218)
Accrual for CEO end-of-service benefits	11	85,300	-
Commodity Murabaha revenues		(6,665)	(16,836)
Dividend income		(17,039)	(6,620)
		(313,613)	1,073,898
Net decrease (Increase) in trade receivables and other assets	8	221,306	(323,881)
Net increase (decrease) in regularization accounts and other liabilities	11	42,642	(65,604)
Decrease in Murabbaha payable	10	(1,664,436)	-
Net cash (used in) generated from operating activities		(1,714,101)	684,413
Cash flows from investing activities:			
Purchase of furniture and fixtures		-	(5,305)
Dividends received		17,039	6,620
Commodity Murabaha revenues received		6,665	16,836
Proceed from write-back of impairment of financial assets	16	-	984,074
Net cash generated from investing activities		23,704	1,002,225
Net (decrease) / increase in cash and cash equivalents		(1,690,397)	1,686,638
Cash and cash equivalents, beginning of year		2,202,726	516,088
Cash and cash equivalents, end of year	5	512,329	2,202,726

The accompanying notes form an integral part of these financial statements

ALKFFA HOLDING B.S.C. (C)
STATEMENT OF CHANGES IN OWNERS' EQUITY
YEAR ENDED DECEMBER 31, 2018

	Notes	Share capital USD	Statutory reserve USD	Fair value reserve USD	(Accumulated losses) / retained earnings USD	Total USD
Balance, January 1, 2017		80,000,000	8,027,709	583,792	(58,900,966)	29,710,535
Total comprehensive income for the year		-	-	379,150	12,274,264	12,653,414
Offset of accumulated losses	12	(40,000,000)	(8,027,709)	-	48,027,709	-
Transfer to statutory reserve		-	1,227,427	-	(1,227,427)	-
Balance, December 31, 2017		40,000,000	1,227,427	962,942	173,580	42,363,949
Transition adjustment on adoption of IFRS 9	2.2	-	-	(3,578)	3,578	-
Balance as restated, January 1, 2018		40,000,000	1,227,427	959,364	177,158	42,363,949
Total comprehensive income for the year		-	-	(166,660)	307,472	140,812
Transfer to statutory reserve		-	30,747	-	(30,747)	-
Balance, December 31, 2018		40,000,000	1,258,174	792,704	453,883	42,504,761

The accompanying notes form an integral part of these financial statements

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL

Alkffa Holding B.S.C. (c) (Previously Known as Investors Bank B.S.C. (c)) (the "Company") was established in the Kingdom of Bahrain as an exempt company on December 2, 1997 and was operating under an investment banking license (Wholesale Islamic Bank). In the Extraordinary General Assembly of shareholders held on September 22, 2016, it was resolved to surrender the banking license and to discontinue all the Company's banking operations. The banking license was cancelled effective January 31, 2017.

The Company is subject to the requirements of the Bahrain Commercial Companies Law. Its' registered activities consist of investment transactions, and participation in equity investments in conformity with the Islamic Shari'a. The Company is to carry on the activities of holding companies.

The Company's current business activities are limited to leasing investment properties.

The Company's activities are supervised by a Shari'a Supervisory Board.

The postal address of the registered office of the Company is Seef Star Building, Seef District, P.O. Box 11818, Kingdom of Bahrain.

2. ADOPTION OF NEW AND REVISED STANDARDS (IFRSs)

2.1 New and revised IFRS Standards that are effective for the current year

Impact of application of IFRS 9 *Financial Instruments*

In the current year, the Company has applied IFRS 9 *Financial Instruments* (as revised in July 2014) with a date of initial application of January 1, 2018. The Company has also applied the consequential amendments to other IFRS Standards that are effective for an annual period that begins on, or after January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Company elected not to restate comparative periods, and accordingly has recognized the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at January 1, 2018.

IFRS 9 introduces new requirements for:

- 1) The classification and measurement of financial assets and liabilities;
- 2) Impairment of financial assets; and
- 3) General hedge accounting.

2.2 Impact on adoption of IFRS 9 – Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from January 1, 2018, using the modified retrospective method. Accordingly the Company did not restate the comparative period. Differences in the carrying amounts of assets and liabilities resulting from the adoption of IFRS 9 and IFRS 15 are recognized in opening retained earnings as at January 1, 2018.

The information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable.

- a) Net impact on opening retained earnings and fair value reserve accumulated under equity, as at January 1, 2018:

	Fair value reserve	Retained earnings
	USD	USD
Closing balances, December 31, 2017	962,942	173,580
Adjustments from adoption of IFRS 9 resulting from:		
Classification and measurement of financial assets	(3,578)	3,578
Classification and measurement of financial liabilities	-	-
Impairment of financial assets	-	-
Hedge accounting	-	-
	<u>959,364</u>	<u>177,158</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

b) Classification and measurement of financial assets and liabilities

The table below reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018:

	IAS 39	IFRS 9	IAS 39	IFRS 9
<u>Financial assets</u>	<u>Measurement category</u>		<u>Carrying amount</u>	<u>Carrying amount</u>
			USD	USD
Cash and banks	Loans & receivables	Amortized cost	2,202,726	2,202,726
Equity investments	Available-for-sale	FVTPL	9,342,970	9,342,970
Equity investments	Available-for-sale	FVTOCI	3,591,767	3,591,767
Equity investments	FVTPL	FVTPL	2,784,642	2,784,642
Deferred payment sale receivable	Loans & receivables	Amortized cost	3,680,203	3,680,203
Other assets	Loans & receivables	Amortized cost	1,260,557	1,260,557
Total financial assets – January 1, 2018			<u>22,862,865</u>	<u>22,862,865</u>

There were no changes to the classification and measurement of financial liabilities.

The Company's accounting policies for the classification and measurement of financial assets and liabilities are detailed in note 3.

c) Impairment of financial assets

The Expected Credit Loss (ECL) model under IFRS 9, did not have a significant impact on the carrying values of the Company's financial assets.

The Company's accounting policies for the impairment of financial assets are detailed in note 3.

d) Hedge accounting

The Company does not apply hedge accounting.

2.3 Other new and revised Standards applied with no material impact on the financial statements

In the current year the Company has applied the following IFRS Standards and interpretations that are effective for an annual period that begins on or after January 1, 2018. Their adoption did not have any material impact on the disclosures or on the amounts reported in the financial statements:

- IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016): IFRS 15 introduces a 5-step approach to revenue recognition. The core principle of IFRS 15 is that entity should recognize revenue to depict the transfer of promised goods and services to customer in an amount that reflects the consideration to which entity expects to be entitled in exchange of those goods and services. Under IFRS 15, an entity recognizes revenue when or as the performance obligation is satisfied.
- Amendments to IFRS 2 *Share-based Payment*, classification and measurement of Share-based Payment Transactions.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* included in the *Annual Improvements to IFRS Standards 2014–2016 Cycle* (Measuring an associate or joint venture at fair value).
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

2.4 New and revised standards issued but not yet effective

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

IFRS 16	<i>Leases</i>
IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Annual Improvements to IFRS Standards 2015-2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 Employee Benefits	<i>Plan Amendment, Curtailment or Settlement</i>
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>

The Directors do not expect that the adoption of the above Standards will have a material impact on the Company's financial statements in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable requirements of the Bahrain Commercial Companies Law.

The financial statements have been prepared on the historical cost convention except for the measurement of equity investments and investment properties at fair value.

The financial statements are presented in United States Dollars ("USD") which management considers is the functional currency of the Company.

The principal accounting policies adopted are set out below:

Revenue recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

Rental income is recognized on the basis of the contractual amounts receivable on a time proportionate basis.

Furniture and fixtures

Furniture and fixtures are stated at historical cost, less accumulated depreciation and impairment loss, if any. Depreciation is recognized so as to write off the cost of these assets using the straight-line method over their useful lives, estimated between to 3 to 5 years depending on the different categories of furniture and equipment.

Expenditures for maintenance and repairs is expensed as incurred. An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of the asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in the profit or loss.

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment property. Investment properties are initially recorded at cost, being the fair value of the consideration given and directly attributable charges. Subsequent to initial recognition, investment properties are measured at fair value. The fair value changes are recognized in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets (effective January 1, 2018)

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of financial assets.

Classification of financial assets

Financial assets are classified as follows:

- Financial assets at amortized cost
- Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)
- Financial asset at Fair Value Through Profit or Loss (FVTPL)

The classification and measurement category of financial assets, except for equity instruments and derivatives, are assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment:

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

Contractual cash flow characteristics test:

The Company assesses whether the financial instruments' cash flows represent Solely for Payments of Principal and Profit (the 'SPPP'). The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. The Company reclassifies a financial asset only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it satisfies the SPPI test and is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Company's cash and cash equivalents, trade and receivables, contract assets, and other assets are classified as financial assets at amortized cost.

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Financial assets at FVOCI

A debt instrument is measured at FVOCI if it satisfies the SPPI test and is held within a business model whose objective is to hold assets to collect contractual cash flows and to sell. These assets are subsequently measured at fair value, with change in fair value recognized in Other Comprehensive Income (OCI). Interest income is calculated using the effective interest method. Foreign exchange gains/losses and impairment are recognized in profit or loss. On de-recognition, gains and losses accumulated in OCI are reclassified to the statement of profit or loss.

For an equity instrument; upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to the statement of profit or loss. Dividends are recognized in profit or loss when the right to receive has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses may be reclassified from fair value reserve to retained earnings in the statement of changes in equity.

Financial asset at FVTPL

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. This also includes equity instruments held-for-trading and are recorded and measured in the statement of financial position at fair value. Changes in fair values and dividend income are recorded in statement of profit or loss according to the terms of the contract, or when the right to receive has been established.

Impairment of financial assets

A loss allowance for expected credit losses (ECL) is recognized on investments in debt instruments that are measured at amortized cost or at FVOCI and lease receivables, as well as on financial guarantee contracts. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realized and the time value of money.

The Company always recognizes lifetime ECL for lease receivables using the simplified approach. To measure the expected credit losses, lease receivables are grouped based on shared credit risk characteristics and the days past due.

The Company recognizes expected credit loss (ECL) for cash and cash equivalents using the general approach. Under this approach the Company applies three-stage approach to measuring ECL. Assets migrate through the three stages based on the change in credit quality since initial recognition. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is a detrimental impact on the estimated future cash flows of the financial asset.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument at the reporting date with the risk of default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort.

The Company considers a financial asset to have a low credit risk when the asset has external credit rating of 'investment grade' and there is no past due amounts.

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Credit-impaired financial assets

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

- Significant financial difficulty of the borrower;
- A breach of contract, such as default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter into bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Equity instruments financial assets (Policy prior to January 1, 2018)

Investments in equities are classified as either investments at fair value through profit or loss or available-for-sale investments.

All investments in equities are initially recognized at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Subsequent to initial recognition:

- Investments that are classified as investments at fair value through profit or loss are carried at fair value. The fair value changes of investments at fair value through profit or loss are reported profit or loss.
- Investments that are classified as available-for-sale investments are carried at fair value. The fair value changes of available-for-sale investments are reported in the statement of changes in owners' equity under "investments fair value reserve" until such time the investments are sold, realized or deemed to be impaired, at which time the realized gain or loss is reported in the profit or loss. The losses arising from impairment of such investments are recognized in the profit or loss under "provision for impairment" and removed from the "investments fair value reserve". Impairment losses recognized in the profit or loss for an equity instrument classified as available-for-sale investments are not reversed through the profit or loss.

Impairment of financial assets (Policy prior to January 1, 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets which share similar credit characteristics are assessed for impairment on a collective basis.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Financial liabilities

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) Held for trading, or (iii) designated at FVTPL, are subsequently measured at amortized cost.

Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, if and only if, there is a legally enforceable or religious right (as determined by Shari'a) to set off recognized amounts and the Company intends to settle on a net basis.

Provisions

Provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Foreign currencies

Transactions in currencies other than the functional currency (foreign currencies) are initially recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value are retranslated at the functional currency closing exchange rates. Differences are taken to equity.

Earnings Prohibited by Shari'a

The Company is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, non-Islamic income, if any, is credited to a charity account where the Company uses these funds for charitable means.

Zakah

In the absence of the appointment of the Company to pay Zakah on behalf of shareholders, the responsibility of payment of Zakah is on the shareholders of the Company.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the accounting policies which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

4-1 Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, which are described in note 3, the management made the following judgements that may have significant effect on the amounts recognized in the financial statements.

4-1-1. Going Concern:

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

4-2 Key sources of estimation uncertainty

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 discussed below:

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

4-2-1. Fair value of investment properties:

The fair value of investments property is determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the statement of financial position. Refer to note 9 for details on the valuation methods used and assumptions used.

4-2-1. Fair value of unquoted equity instruments:

The carrying value of the Company's unquoted equity instruments amounted to USD 14,966,547 (2017: USD 12,071,628). These are categorized under Level 3 in the fair value hierarchy. Note 6(c) provides details on the basis applied by the Directors in determining the fair value of these investments.

5. CASH AND BANKS

	2018 USD	2017 USD
Cash at banks	244,993	735,625
Murabaha deposit	266,010	1,465,775
Cash in hand	1,326	1,326
	<u>512,329</u>	<u>2,202,726</u>

6. EQUITY INVESTMENTS

	2018 USD	2017 USD
Under IFRS 9:		
Equity investments at FVTPL	14,994,025	-
Equity investments at FCTOCI	3,425,107	-
Under IAS 39:		
Equity investments at FVTPL	-	2,784,642
Equity investments - Available-for-sale	-	12,934,737
	<u>18,419,132</u>	<u>15,719,379</u>

The movement of equity investments was as follows:

	At FVTPL USD	At FVTOCI USD	Available- for-sale USD	Total USD
Balance, January 1, 2017	2,779,742	-	3,216,195	5,995,937
Net unrealized gain	4,900	-	379,150	384,050
Addition (note 16a)	-	-	9,339,392	9,339,392
Balance, December 31, 2017	<u>2,784,642</u>	<u>-</u>	<u>12,934,737</u>	<u>15,719,379</u>
Transition adjustments of IFRS 9	9,342,970	3,591,767	(12,934,737)	-
Balance, January 1, 2018 as restated	<u>12,127,612</u>	<u>3,591,767</u>	<u>-</u>	<u>15,719,379</u>
Fair value (loss) on quoted investments	(28,506)	(166,660)	-	(195,166)
Fair value gain on unquoted investments	2,894,919	-	-	2,894,919
	<u>2,866,413</u>	<u>(166,660)</u>	<u>-</u>	<u>2,699,753</u>
Balance December 31, 2018	<u>14,994,025</u>	<u>3,425,107</u>	<u>-</u>	<u>18,419,132</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

The details of equity investments are as follows:

Equity investments at FVTPL				
	Fair value hierarchy	December 31, 2018 USD	Restated for transition adjustments of IFRS 9 January 1, 2018 USD	December 31, 2017 USD
Quoted:				
GFH Financial Group	Level 1	4,297	7,366	7,366
Al Salam Bank - Bahrain	Level 1	123,939	136,333	136,333
Khaleeji Commercial Bank	Level 1	27,900	40,943	40,943
		<u>156,136</u>	<u>184,642</u>	<u>184,642</u>
Unquoted:				
International Investment Group	Level 3	11,115,646	9,342,970	-
Grand Real Estate Projects Co.	Level 3	3,722,243	2,600,000	2,600,000
		<u>14,837,889</u>	<u>11,942,970</u>	<u>2,600,000</u>
		<u>14,994,025</u>	<u>12,127,612</u>	<u>2,784,642</u>
Equity investments at FVTOCI				
	Fair value hierarchy	December 31, 2018 USD	Restated for the transition adjustments of IFRS 9 USD	December 31, 2017 USD
Quoted:				
Bahrain Islamic Bank (a)	Level 1	2,509,035	2,646,247	2,646,247
First Takaful Insurance Co.	Level 1	66,193	86,092	86,092
Bahrain Family Leisure Co.	Level 1	64,456	74,005	74,005
Takaful International, Bahrain	Level 1	656,765	656,765	656,765
		<u>3,296,449</u>	<u>3,463,109</u>	<u>3,463,109</u>
Unquoted:				
Takaful International, Kuwait	Level 3	128,658	128,658	128,658
International Investment Group	Level 3	-	-	9,342,970
International Projects Consultancy Co.	Level 3	-	-	-
Gulf Monetary Group	Level 3	-	-	-
		<u>128,658</u>	<u>128,658</u>	<u>9,471,628</u>
		<u>3,425,107</u>	<u>3,591,767</u>	<u>12,934,737</u>

(a) The shares of Bahrain Islamic Bank are under legal dispute and in custody of the Court (note 7).

(b) The movement was as follows:

	Level 1 USD	Level 3 USD	Total USD
Balance, January 1, 2017	3,267,279	2,728,658	5,995,937
Net unrealized gain in OCI	375,572	3,578	379,150
Net unrealized gain in profit or loss	4,900	-	4,900
Addition (note 16a)	-	9,339,392	9,339,392
Balance, December 31, 2017	3,647,751	12,071,628	15,719,379
Net unrealized gain in OCI	(166,660)	-	(166,660)
Net unrealized gain in profit or loss	(28,506)	2,894,919	2,866,413
Balance, December 31, 2018	3,452,585	14,966,547	18,419,132

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

(c) The table below provides the carrying values of equity investments categorized under Level 3 in the fair value hierarchy as at December 31, and the basis applied by the Directors in determining the fair value:

	2018 USD	2017 USD	Fair value basis for Level 3
International Investment Group	11,115,646	9,342,970	Net asset value (unaudited). 5% discount for illiquidity factor.
Grand Real Estate Projects Co.	3,722,243	2,600,000	
Takaful International, Kuwait	128,658	128,658	Adjusted cost. Fair valuation not performed.
	<u>14,966,547</u>	<u>12,071,628</u>	

7. DEFERRED PAYMENT SALE RECEIVABLE / DUE TO A FINANCIAL INSTITUTION

On March 7, 2004 the Company entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of USD 5,811,957 including six-month deferred payment costs of USD 141,755. Concurrently the Company entered into an agreement with another related party to sell the same shares for a total consideration of USD 5,821,958 including deferred payment costs of USD 151,755, payable on September 30, 2004.

In accordance with the terms of the sale and purchase agreement, the Company pledged certain own equity investments in addition to subsequent dividend shares received, in favor of the financial institution, which carrying value as at December 31, 2018 amounted to USD 2,509,035 (USD 2,646,247 as at December 31, 2017) and dividends receivable up to 2006 totaling USD 887,733 (note 8).

At the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to USD 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Company's pledged shares. The Company's management considered that the agreement was wrongfully terminated and the pledged shares are unlawfully retained. The Company has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged shares, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of USD 3,680,203 representing the amount due to the Company on the deferred sale of shares, was drawn by that related party and deposited at the Court.

In the opinion of the Company's Board of Directors, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

8. TRADE RECEIVABLES AND OTHER ASSETS

This section is composed of the following:

	2018 USD	2017 USD
Lease receivable (a)	1,361	551,843
Less: Allowance for impairment (a)	-	(179,576)
	<u>1,361</u>	<u>372,267</u>
Receivable against insured reparation costs (b)	79,576	-
Prepaid expenses	7,236	12,757
Refundable deposit	557	557
	<u>88,730</u>	<u>385,581</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

(a) The movement of lease receivable and related allowance for impairment was as follows:

	Lease receivable USD	Allowance for impairment USD
Balance January 1, 2018	551,843	(179,576)
Collection on 2017 lease receivable	(296,724)	-
Allowance for impairment recognized in profit or loss	-	(75,544)
Contractual rent during 2018	1,422,385	-
Write-off contractual rent for 2018	(1,020,980)	-
Write-off against allowance	(255,120)	255,120
Collection on 2018 leases	(400,043)	-
	<u>1,361</u>	<u>-</u>

(b) The receivable against insured reparation costs amounting USD 79,576 as at December 31, 2018 represents reparation costs incurred as a result of damages caused by a fire in one of the Company's buildings, which were claimed from the insurer.

9. INVESTMENT PROPERTIES

The carrying values of investment properties at December 31, 2018 and 2017 and related net rental income during 2018 and 2017 were as follows:

	Investment properties		Rental income	
	2018 USD	2017 USD	2018 USD	2017 USD
Al Muhanad Tower (7 units)	1,364,194	1,443,159	109,553	91,240
Burhama Land	8,116,711	9,071,618	-	-
Hoorah Building 91700	5,039,788	6,498,674	74,271	694,576
Hoorah Building 92072	5,570,291	6,498,674	-	694,576
Seef Star Building	3,978,780	2,984,085	217,580	269,461
	<u>24,069,764</u>	<u>26,496,210</u>	<u>401,404</u>	<u>1,749,853</u>

No purchases or sales were to investments properties during 2018 and 2017.

The table below shows the fair value loss or gain recognized in profit or loss during the current year and the cumulative fair value adjustments:

	Fair value (loss) / gain		Cumulative fair value adjustment as at December 31, 2018
	2018 USD	2017 USD	USD
Al Muhanad Tower (7 units)	(78,965)	32,676	(265,070)
Burhama Land	(954,907)	1,007,958	(7,780,675)
Hoorah Building 91700	(1,458,886)	129,974	(932,478)
Hoorah Building 92072	(928,383)	129,974	(208,455)
Seef Star Building	994,695	(432,364)	(3,350,564)
	<u>(2,426,446)</u>	<u>868,218</u>	<u>(12,537,242)</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

The fair values of investment properties are categorized under Level 3 in the fair value hierarchy. Fair values were determined on the following basis:

	2018		2017	
Al Muhanad Tower units	Market value	Comparable approach	Market value	Comparable approach
Burhama Land	Market value	Comparable approach	Market value	Comparable approach
Hoorah Building 91700	Market value		Market value	Income approach
Hoorah Building 92072	Market value		Market value	Income approach
Seef Star Building	Market value		Market value	Income approach

10. MURABAHA PAYABLE

In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledge of 18,840,341 equity shares, of which 8,352,705 owned by the Company with a carrying value at that time of USD 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Company obtained from the above related party a one year financing totaling USD 3,229,064 including financing cost of USD 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favor of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (USD 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices.

In recognition of the Company's liability, the Board of Directors had decided to write down to zero the value of its 8,352,705 pledged shares and had valued the remaining same shares (2,912,950 shares) in its portfolio at BD 0.100 (USD 0.2652) per share, being the lowest bidding price up to the 2014 year end. In April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share and the amount was directly awarded to the party to whom the shares were pledged to with no gain or loss being recognized by the Company.

On January 20, 2018, the Board of Directors resolved to accept an offer from the related party to settle the Murabaha payable at a 10% discount. Accordingly, the Board of Directors approved the following settlement plan to pay the discounted balance amounting to USD 2,906,158 as follows:

- 50% of the balance amounting to USD 1,453,078 settled in January 2018;
- 50% of the remaining balance amounting to USD 1,453,078 was approved to be paid over 55 monthly installments (USD 26,420.60 each) starting from March 2018.

The movement of the Murabaha payable was as follows:

	2018	2017
	USD	USD
Balance, January 1	3,229,063	3,229,064
Discount booked to profit or loss	(322,906)	-
Settlements during 2018	(1,664,436)	-
Balance, December 31	<u>1,241,721</u>	<u>3,229,064</u>

The remaining balance is payable as follows:

	USD
Overdue - 2018	52,839
Year 2019	317,035
Total current	<u>369,874</u>
Year 2020	317,035
Year 2021	317,035
Year 2022	237,777
Total non-current	<u>871,847</u>
Total	<u>1,241,721</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

11. OTHER LIABILITIES

	2018 USD	2017 USD
Accrued end-of-service indemnity for CEO	85,300	-
Accrued leaves	49,104	23,287
Accrued expenses	44,128	39,965
Unearned rental income	24,114	28,805
Charity payable	17,513	17,513
Accrued commission fees for rent broker	14,629	-
Others	12,228	9,504
	<u>247,016</u>	<u>119,074</u>

12. SHARE CAPITAL AND STATUTORY RESERVE

(i) *Share capital*

	2018 USD	2017 USD
Authorized:		
Number of shares	303,030,303	303,030,303
Price per share	0.33	0.33
	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid up		
Number of shares	121,212,121	242,424,242
Price per share	0.33	0.33
	<u>40,000,000</u>	<u>80,000,000</u>

During 2017, the Shareholders resolved through an Extraordinary General meeting held on May 11, 2017 to reduce the Company's paid-up share capital from USD 80 million distributed over 242,424,242 shares to USD 40 million distributed over 121,212,121 shares, in order to extinguish part of the accumulated losses. In addition, the Shareholders resolved to fully extinguish the statutory reserve amounting to USD 8,027,709 as at December 31, 2016.

(ii) *Statutory reserve*

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time the reserve reaches 50% of the Company's paid-up share capital. This reserve is not available for distribution, but can be utilized as security for the purpose of distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

13. OTHER INCOME, NET

Other net income for the year 2018, includes an amount of USD 45,034 representing amount awarded to the Company in a legal case filed by the Company against a third party for the unauthorized use of Company's land.

14. SALARIES AND RELATED CHARGES

	2018 USD	2017 USD
Salaries and related charges - CEO	466,465	-
Salaries and related charges - Acting CEO	-	38,904
Salaries and related charges - Staff	73,269	89,638
	<u>539,734</u>	<u>128,542</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

15. ADMINISTRATIVE AND GENERAL EXPENSES

	2018 USD	2017 USD
Professional fees	63,926	64,058
Maintenance	55,537	62,538
Office service and cleaning	43,923	40,037
Consultancy and legal expenses	42,155	146,709
Insurance	15,542	18,591
Directors' remuneration	16,500	60,000
BOD meeting expenses and attendance fees	17,891	41,151
Shari'a Board fees	4,944	4,947
Travel costs	13,138	11,315
Communication	3,650	4,641
Electricity and municipality	13,057	88,271
Sundry expenses	12,834	9,066
	<u>303,097</u>	<u>551,324</u>

16. WRITE-BACK OF IMPAIRMENT OF FINANCIAL ASSETS

	2018 USD	2017 USD
Write-back from the settlement with International Investment Group (IIG) – (a)	-	9,339,392
Write-back from the settlement with Grand Real Estate Projects Co. (b)	-	984,074
	<u>-</u>	<u>10,323,466</u>

- a) During 2017, the Board of Directors resolved to accept a settlement with International Investment Group (IIG) in which all the receivables amount from IIG, which were previously fully provided for, has been extinguished in return for the increase in the share capital of IIG of which all the new shares has been registered in name of Company. The fair value of the shares received is equivalent to USD 9,339,392.
- b) On June 9, 2016, the Company reached into an agreement with Grand Real Estate Projects Co. to settle all the receivables and payables to and from each other. Accordingly, both parties agreed on the following:
- Grand Real Estate Projects Co. will pay the Company an amount of KWD 900,000;
 - Grand Real Estate Projects Co. will pay 30% of the selling value of a property sold amounting to AED 3,905,714 after deducting all collections fees, governmental fees, repair and maintenance and legal fees.
 - Upon settling the above, the balances in both companies' record will be cleared to zero.

As at year end December 31, 2018, the Company received only KWD 300,000 (US\$ 984,074) from the above agreement.

17. ASSETS IN LEGAL CUSTODY

The carrying values of assets in custody as at December 31 are as follows:

	2018 USD	2017 USD
Equity investments (notes 6(a) & 7)	2,509,035	2,646,247
Dividends receivable (notes 7 & 8)	887,733	887,733
	<u>3,396,768</u>	<u>3,533,980</u>

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

18. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise major shareholders, directors of the Company, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Company.

Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arms-length basis:

a) Balances and transactions with related parties:

	Note	December 31, 2018		
		Shareholders	Other related parties	Total
		USD	USD	USD
ASSETS				
<i>Equity investments:</i>				
International Investment Group (IIG)	6	11,115,646	-	11,115,646
Grand Real Estate Projects Co.	6	-	3,722,243	3,722,243
Gulf Monetary Group (GMG)	6	-	-	-
Managed portfolio (GMG shares)	6	-	-	-
International Projects Consultancy Co.	6	-	-	-
<i>Deferred payment sale receivable:</i>				
Gulf Monetary Group (GMG)	7	3,680,203	-	3,680,203
<i>Receivable from sale of investments:</i>				
Gulf Monetary Group (GMG) (net of provision USD 5.97 million)		-	-	-
<i>Other receivables:</i>				
Gulf Monetary Group (GMG) (net of provision USD 0.15 million)		-	-	-
Grand Real Estate Projects Co. (net of provision USD 8.82 million)		-	-	-
Josor Capital (net of provision USD 0.41 million)		-	-	-
LIABILITIES				
<i>Murabaha payable:</i>				
International Investment Group (IIG)	10	1,241,721	-	1,241,721
<i>Other liabilities:</i>				
Accrued end-of-service indemnity for CEO		-	85,300	85,300
Accrued benefits for CEO		-	49,533	49,533
Accrued Shari'a Supervisory Board fees		-	2,469	2,469
OFF BALANCE SHEET ITEMS				
Investments in IIG on behalf of GMG (net of provision USD 5.67 million)		-	-	-
GMG shares managed by the Company on behalf of GMG, IIG and Investors Holding (net of provision USD 10.45 million)		-	-	-
INCOME				
Write-off of Murabaha payable from IIG		322,906	-	322,906
Fair Value gain on investment in IIG measured at FVTPL		1,772,676	-	1,772,676
Fair Value gain on investment in Grand Real Estate measured at FVTPL		-	1,122,243	1,122,243
EXPENSE				
Salaries and related charges - CEO		-	466,465	466,465
Directors' remuneration		-	16,500	16,500
BOD meeting expenses and attendance fees		-	17,891	17,891
Shari'a Supervisory Board		-	4,944	4,944

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

a) Balances and transactions with related parties (Continued):

		December 31, 2017		
	Note	Shareholders USD	Other related parties USD	Total USD
ASSETS				
<i>Equity investments:</i>				
International Investment Group (IIG)	6	9,342,970	-	9,342,970
Grand Real Estate Projects Co.	6	-	2,600,000	2,600,000
Gulf Monetary Group (GMG)	6	-	-	-
Managed portfolio (GMG shares)	6	-	-	-
International Projects Consultancy Co.	6	-	-	-
<i>Deferred payment sale receivable:</i>				
Gulf Monetary Group (GMG)	7	3,680,203	-	3,680,203
<i>Receivable from sale of investments:</i>				
Gulf Monetary Group (GMG) (net of provision USD 5.97 million)		-	-	-
<i>Other receivables:</i>				
Gulf Monetary Group (GMG) (net of provision USD 0.15 million)		-	-	-
Grand Real Estate Projects Co. (net of provision USD 8.82 million)		-	-	-
Josor Capital (net of provision USD 0.41 million)		-	-	-
LIABILITIES				
<i>Murabaha payable:</i>				
International Investment Group (IIG)	10	3,229,064	-	3,229,064
<i>Other liabilities:</i>				
Accrued end-of-service indemnity for CEO		-	-	-
Accrued benefits for CEO		-	-	-
Accrued Shari'a Supervisory Board attendance fees		-	-	-
OFF BALANCE SHEET ITEMS				
Investments in IIG on behalf of GMG (net of provision USD 5.67 million)		-	-	-
GMG shares managed by the Company on behalf of GMG, IIG and Investors Holding (net of provision USD 10.45 million)		-	-	-
INCOME				
<i>Write-back of impairment of financial assets:</i>				
International Investment Group		9,339,392	-	9,339,392
Grand Real Estate Projects Co.		-	984,074	984,074
EXPENSE				
Salaries and related charges – Acting CEO		-	38,904	38,904
Directors' remuneration		-	60,000	60,000
BOD meeting expenses and attendance fees		-	41,151	41,151
Shari'a Supervisory Board fees		-	4,947	4,947

In addition to the above:

- Refer to note 10 with regard to settlement agreement made with International Investment Group during 2018.
- Refer to note 16 (a) with regard to settlement agreement made with International Investment Group during 2017.
- Refer to note 16 (b) with regard to settlement agreements made with Grand Real Estate Projects Co. during 2016.

ALKFFA HOLDING B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

19. RISK MANAGEMENT

b) Contingent receivable:

As discussed under note 16 (b) the Company concluded a settlement agreement with Grand Real Estate Projects Co. to settle their respective receivable and payable against settlement by Grand Real Estate Projects Co. KWD 900,000 and 30% of the selling value property sold by the latter. Up to December 31, 2018 the Company received only KWD 300,000.

The Company is exposed to credit risk, liquidity risk and market risk along with other operational risks. The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Company's credit risk arises mainly from balances with banks, due from a financial institution, deferred payment sale receivables and other assets. The Company manages its credit risk on bank balances by placing funds with reputable banks having good credit ratings.

The Company's maximum exposure to credit risk at December 31, was as follows:

	2018 USD	2017 USD
Balances with banks	511,003	2,201,400
Deferred payment sale receivable	3,680,203	3,680,203
Other assets	969,227	1,260,557
	<u>5,160,433</u>	<u>7,142,160</u>

Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. The company's liquid assets consist mainly of deposit with banks.

The Company's financial liabilities due within one year (based on the contractual maturities) amounted to USD 4,287,092 (2017: USD 7,018,340). Balances due beyond one year amounted to USD 871,847 (2017: USD Nil.)

Equity price risk

Equity price risk is the risk that Company's equity investments will depreciate in value due to movements in the equity prices.

Change of 5% in equity prices or valuations would impact the carrying values of the Company's investments by USD 921,000:

- Impact on profit or loss: USD 750,000
- Impact on other comprehensive: 171,000

20. CONTINGENT LIABILITIES

Various parties have filed legal actions against the Company with varying claims and associated legal costs. The outcome of the remaining actions cannot be presently determined. Accordingly the Company has not made any provisions.