AQARAT
عقارات

Annual Report
2014

H.H. Sheikh Sabah
Al-Ahmed Al-Jaber Al-Sabah
Amir of Kuwait

H.H Sheikh Nawaf
Al-Ahmed Al-Jaber Al-Sabah
Crown Prince

H.H. Sheikh Jaber
Al-Mubarak Al-Hamad Al-Sabah
Prime Minister

CONTENTS

Chairman's Message

Esteemed Shareholders,

It gives me immense pleasure to present the Annual Report 2014 of Kuwait Real Estate Company highlighting the most important achievements during the year.

Financial Performance :

The company realized a profit of KD 7.1 million in 2014 as against KD 6.7 million in 2013, which is equivalent to 7.8 fils per share in 2014 compared to 7.4 fils per share in the previous year, a growth of 6%.

Income from leasing operations rose to KD 13.5 million in 2014, recording a 14% increase mainly due to the increase in leasing rates of the company's real estate units, specifically Souq Al Kuwait and Souq Al Kabir.

Operational expenses increased from KD 5.5 million in 2013 to KD 7.9 million in 2014. The increase in expenses is attributed to an increased expenditure to meet our commitments under the contract signed with the Ministry of Finance for Souq Al Kuwait and Souq Al Kabir.

Shareholders' equity improved to KD 126 million as compared to KD 124 million in 2013, a significant achievement. Resultant, the book value of the share has increased to 140 fils per share in 2014 vis-à-vis 137 fils in the year before.

The company has rescheduled its credit facilities with Al Ahli United Bank, and obtained a new credit line of KD 75 million with the objective of expanding the company's real estate activities.

Local Market

In line with the ambitious plans of the Board of Directors, it was decided to divest some of the company's lower yielding assets. Reem Centre Complex was sold for KD 5.5 million, thereby realizing a profit of KD 3.3 million, as mentioned in our income statement of 2014.

In terms of real estate development, our company is in the final stages of renovating the Pearl Marzouq Complex in Salmiya. The retail component of the building is expected to be rented out by the end of April 2015.

Renovation and restoration of Souq Al Kuwait and Souq Al Kabir, in order to create an elegant structure, has already made good progress. The elevators, air-conditioning and escalators of the buildings have been upgraded.

We hope to complete the development of both the Souqs within the next two years which would reflect positively on our total real estate income.

The company has acquired land of Arabella Entertainment complex, in Al Bida area of Kuwait, for KD 25.5 million. The complex is well known and has a unique locale overlooking the sea and hosts several major franchisee restaurants.

Gulf Region:

It is with pride that I share with you, that our company owns a variety of real estate assets including villas, apartments and land plots in Dubai, Sharjah and Manama.

The company anticipates to sell these assets at lucrative prices and reinvest the proceeds in higher yielding assets.We have also increased the company's real estate portfolio in Dubai over the last year.

International Market:

Internationally, the company increased its investments in Multifamily Student Housing and "Yotel" brand of hotels. The company has exited from real estate assets in the US through its subsidiary Pearl Habara Farms Inc., achieving returns in line with expectations.

Renovating & Upgrading the Company's Head Office

The company undertook a rebranding strategy in 2013 and as part of this initiative, we had planned to upgrade our Head Office. Work is currently underway to renovate the company's headquarters on the 8th floor, Souk Al Kuwait based on a modern design which facilitates ample space for customers and employees in order to ensure enhanced efficiency and productivity. We expect to move to the new office space by mid of 2015.

Future plans for 2015

The company is committed to implementing the plan of the Board of Directors with focus on increasing our real estate portfolio by investing in profitable projects & developing proprietary real estate assets.

To conclude, I would like to thank you all, our esteemed board members, our valued employees and everyone who has contributed to the development of our company towards a more prosperous and progressive future.

Thank you one and all.

Ibrahim Saleh Al Therban
Chairman of the Board

Board Members

Ibrahim Saleh Al Therban
Chairman

Issam Mohamed Al Bahar
Vice Chairman

Othman Ahmad Al Sumait
Board Member

Mishari Abdullah Al Dakhil
Board Member

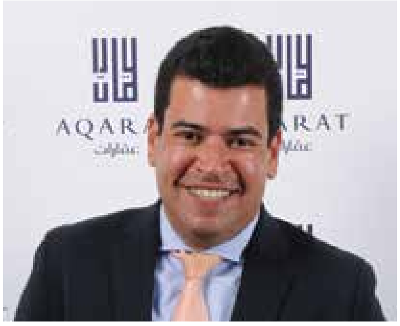
Ahmad Faisal Al Qatami
Board Member

Khaled Saeed Esbaitah
Board Member

Marzouq Jassim Al Bahar
Board Member

Executive Management

Emad Abdullah Al-Essa
Chief Executive Officer



Fahad Husam Al-Shamlan
Investment
& Acquisitions Manager

Eng. Abdul Aziz Abdul Razzak Al-Meajel
Real Estate Design
& Development Manager

Mohammed Nouri Al-Hamad
Human Resources
& Administration Manager

Eng. Naser Mohammed Al-Bader
Facilities Manager

Hamad Saad Al-Mulaifi
Sales & Marketing Manager

Jayram Viswanathan
Financial Controller

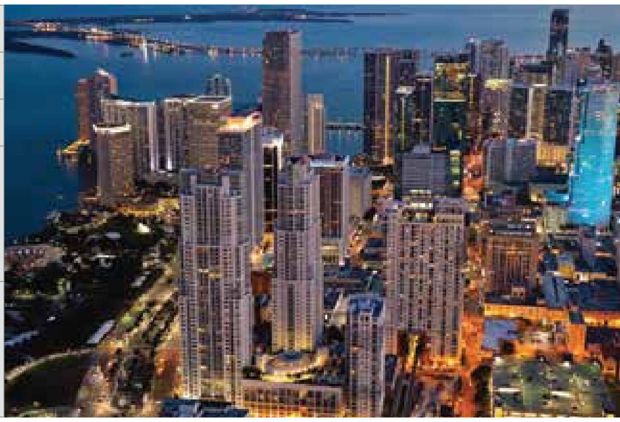
Investment

AQARAT ENTERS INTO JOINT VENTURE WITH ARIA DEVELOPMENT GROUP TO DEVELOP MIXED-USE PROJECT IN DOWNTOWN MIAMI

AQARAT has recently entered into a joint venture agreement with Aria Development Group to develop a mixed-use residential/hotel property in Downtown Miami.
Strategically located in the heart of Miami's Central Business District and one block from the Miami-Dade College's Wolfson Campus, the project benefits from high-density zoning.
YOTEL Miami's location is walking distance from some of the city's best-known attractions including the Perez Art Museum, the Arsht Center, the Miami World Center, Bayfront Park and the American Airline Arena (home of the Miami Heat), Miami's main sports and entertainment arena. The hotel's location is also steps away from Port Miami, one of the world's leading cruise ports, and a short

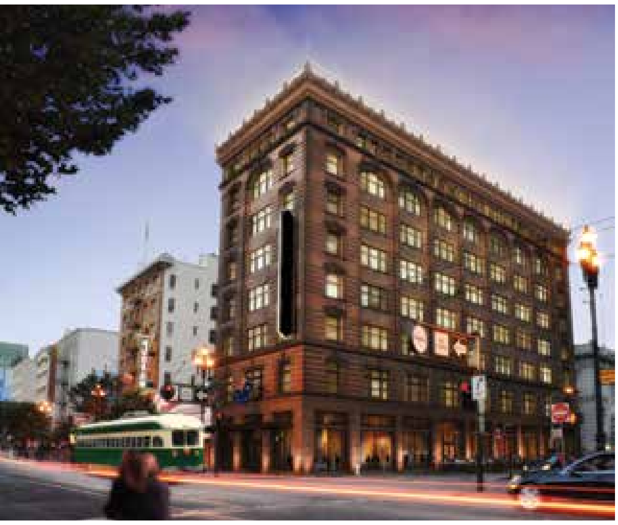
YOTEL MIAMI HOTEL & RESIDENCES

Location	Downtown Miami, Miami U.S.A.
Investment Type	Development
Property Type	Mixed Use – Residential & Hospitality
Project Size	148,000 square feet 120 Residential Units 250 Hotel keys
Project Team	Developer: Aria Development Group Architect: ADD Inc.



distance from Miami International Airport and the popular South Beach via the Metromover, the Metrobus and the Metrorail system.
Featuring innovative skyscrapers, historic shopping arcades and the city's leading dining venues, Downtown Miami has become one of the hottest new urban centers in which to live, work and play.
The project will consist of approximately 120 residential units and 250 hotel keys. Expected development costs are $110 Million. Design and construction drawings are currently underway. Construction is expected to begin in early 2016.

AQARAT ACQUIRES STAKE IN YOTEL SAN FRANCISCO



AQARAT has acquired a significant stake in the soon to be developed Yotel San Francisco located at 1095 Market Street, San Francisco.

Situated on the southeast corner of Market and 7th Street in the Mid-Market neighborhood of San Francisco, 1095 Market Street is on the southern edge of the Market Street Theatre and Loft District. The building was constructed in 1904, and was one of three buildings in the area to survive the 1906 earthquake. **AQARAT** and its development partner Synapse Development Group are currently in the process of re-developing the property into a 200+ key YOTEL branded hotel, with a significant food and beverage component.

The project is one of many planned developments along Market Street between 6th and 7th Streets that will help revitalize the area, which is already home to several major technology companies including Twitter, Uber, Spotify, Dolby, etc.

The process of amending the current planning permissions on the property is currently underway. Full building permits are expected to be completed by June 2015, with construction anticipated to begin later this year.

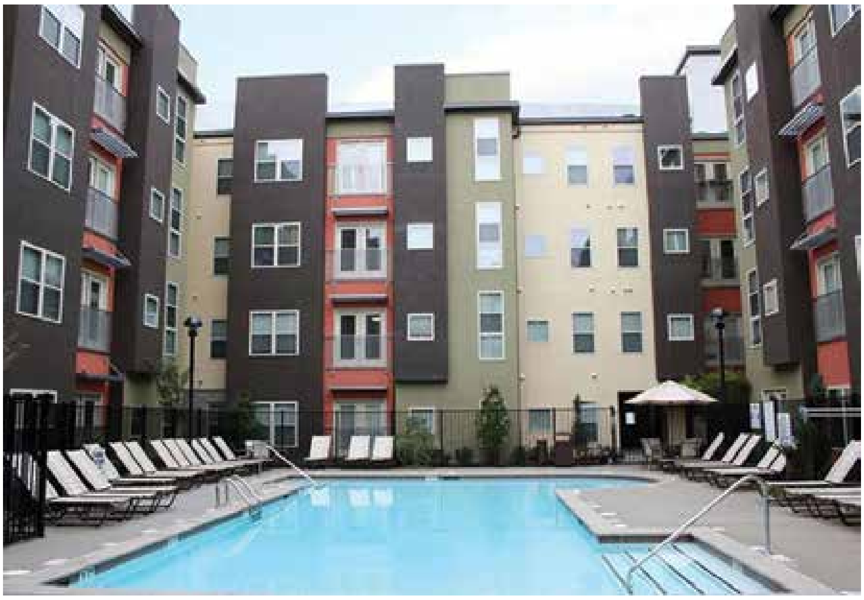
Total development costs are expected to be approximately $63 million.

YOTEL SAN FRANCISCO

Location	1095 Market Street, San Francisco U.S.A
Investment Type	Development
Property Type	Hospitality
Expected Completion	Fall 2016
Project Size	84,000 square feet 200+ keys 3,500 square feet of ground floor retail/F&B space 3,500 square feet of rooftop F&B space
Project Team	Developer: Synapse Development Group Architect: BAR Architects Historic Architect: Paige & Turnbull Interior Design: Nicole Hollis Landscape: Surface Design

INVESTMENT IN STUDENT HOUSING/ MULTIFAMILY PROPERTY IN ATLANTIC STATION, GEORGIA U.S.

THE FLATS – ATLANTIC STATION , GEORGIA



Location	Atlanta, Georgia U.S
Investment Type	Income Generating
Property Type	Student Housing/ Multifamily

In an effort to diversify **AQARAT's** current local KWD 90 million income generating property portfolio, as well as increase investment in income generating projects in mature markets, the company completed the acquisition of an 86 unit, 281 bed student housing rental property- "The Flats at Atlantic Station" located in Atlanta, Georgia U.S. in June 2014.

The property is located in the heart of the Atlanta Midtown market in close proximity to several major universities including Georgia Tech, Georgia State University, Morehouse College, Spelman College, and Clark Atlanta University.

The property was acquired for an acquisition price of $16.7 million. The deal has been structured to maximize gains and achieve tax efficiencies.
In the six months since acquisition, rents have been increased and minor renovation works were carried out. The current cash yield on the property is over 9% per annum.

SUCCESSFUL EXIT FROM U.S. NET LEASE PORTFOLIO

U.S. NET-LEASED PORTFOLIO

Location	Florida, Indiana
Investment Type	Income Generating
Property Type	Net Lease Pharmacy Assets
Hold period	12-30 months
Realized ROI	21.36%

AQARAT successfully exited from a portfolio of four U.S. net-leased pharmacy assets in August 2014. These properties were acquired over an 18-month period between 2012 and 2013.

With valuations on these properties hitting all time highs, it was an opportune time to divest from the portfolio at attractive prices.

The company achieved an overall ROI of 21.36% on the exit of this portfolio. The proceeds from the sale of this portfolio have been utilized towards expanding the company's asset base in the U.S. in the form of additional income producing properties.

Property	Acquisition Price	Hold Period	Income Yield	Sale Price	ROI
CVS Daytona	$4 Million	30 months	7,26%	$4.7 Million	28.97%
CVS Danville	$ 2.2 Million	30 months	7.25%	$ 2.6 Million	25.83%
CVS Jacksonville	$ 5.8 Million	30 months	7.18%	$ 6.4 Million	23.42%
Walgreens, Huntsville	$ 3.9 Million	12 months	6.5%	$ 4.1 Million	9.07%

SUCCESSFUL EXIT FROM INVESTMENT IN L'OREAL DISTRIBUTION WAREHOUSE, SHERWOOD PARK, NOTTINGHAMSHIRE ,UK

L'OREAL DISTRIBUTION WAREHOUSE

Location	Sherwood Park, Nottinghamshire UK
Investment Type	Income Generating
Property Type	Industrial Warehousing
Investment Amount	£1,500,000
Hold period	15 Months
Total Distributions	1,833,568
Realized IRR	16.6%

AQARAT has successfully exited from the investment made in L'Oreal Warehouse Sherwood Park UK. This investment was made in March 2013 through Arzan Financial Group for Financing and Investment.

An amount of £1,500,000 was invested in the entity that acquired a warehouse leased to L'Oreal UK and located in Sherwood Park, Nottinghamshire UK. The IRR achieved on this investment was 16.6% per annum.

Real Estate Development

The Real Estate Development Department (REDD) is the engineering arm of **AQARAT**, responsible for planning, design, permitting, development and construction of the company's development projects. REDD is responsible for the administration of projects to ensure that the projects are built in compliance with the agreed engineering specifications & standards.

REDD supports all aspects of the company's delivery of successful real estate products, enhancing the company's project portfolio.

PEARL MARZOUQ

Renovation of Pearl Marzouq aims to supplement the property with modern amenities and sophisticated finishes,while preserving the heritage and integrity of the original building. The scope of renovation work includes both the external as well as the internal areas. The external renovation work includes repairs to enhance the structural stability of the building, reclamation of the central courtyard with beautiful landscape and seating area, enhancement of the commercial space to be utilized for F&B with access to the central courtyard and outside seating area. Other areas that were given a face lift include the Central Pavilion, access controlled elevator lobbies in each block, the Private Club, the Vertical Garden, expanded aluminum mesh cladding on the external sand stone facade, enhanced basement parking, smart building automation systems with access control/ CCTV/video intercom/parking management system/data network. The interior works include renovation of 112 duplex apartments & 16 penthouses using sophisticated finishing materials,and optimizing the design for better daylight and sea views for all units.

The project has been progressing well, with 100% of the planned external renovation being complete while 70% of the internal units are expected to be completely renovated by the end of this year. The remaining 30% is subject to the availability of these units for renovation .

SOUQ AL KUWAIT

Renovation work to the extent of KD 3,036,748 is being carried out at Souq Al Kuwait and includes structural repair, toilets, replacement of elevators & escalators, facade, aluminum works, public area, offices, parking, lobbies, unifying the signage as per **AQARAT** Tenant Information Manual, replacement of HVAC system, plumbing & electrical works, low voltage works (access control system, CCTV, Public address, data network, car park management system), maintenance of fire fighting & fire alarm system. The project is expected to be completed by Dec 2016 and work is progressing as per the schedule.

SOUQ AL KABIR

Renovation works to the extent of KD 3,015,459 is being carried out at Souq Al Kabir and includes structural repair, toilets, replacement of elevators & escalators, façade, aluminum works, public area, offices, parking, lobbies, unifying the signage as per **AQARAT** Tenant Information Manual, replacement of HVAC system, plumbing & electrical works, low voltage works (access control system, CCTV, Public address, data network, car park management system), maintenance of fire fighting & fire alarm system . The project is expected to be completed by Dec 2016 and work is progressing as per the schedule.

RIGGAE BLOCK–E

The renovation work being carried out at Riggae Block-E includes toilets, staircase, changing the corridor flooring, ceiling, lighting, façade, unifying the signage, upgrading all mechanical, electrical and plumbing systems.

AQARAT HEAD OFFICE

Based on comprehensive analysis, **AQARAT's** head office needed to be upgraded in line with current health and safety standards, and to better meet the company's evolving business requirements. Refurbishing the head office is also an opportunity to make it more energy efficient, cost effective and environmentally sustainable. Renovation works include upgrade of architectural, mechanical and electrical systems.

Information Technology

The Information Technology (IT) Department at **AQARAT** provides the highest quality technology-based services in the most cost-effective manner to facilitate the company's operations. The technology solutions provided are secure, reliable and integrate all aspects of the business.

During the financial year, the IT Department implemented the following solutions:

Microsoft Dynamics AX 2012 – a business solution from Microsoft,

Microsoft Dynamics AX 2012 offers a fast and efficient way to register financial transactions from general ledger to account payable/receivable, budget control, bank management & cash flow. It completely automates the leasing cycle. The solution provides a Legal Module, Facility Management Module,Sales and Marketing Module and Project Management Module which is expected to enhance the efficiency, productivity and controls in the company.

Docuware (Document Management System)

DocuWare is state-of-the-art document management system software for professional Enterprise Content Management. It improves business processes and efficiencies whilst lowering the cost of document storage and supplies by creating a consistent document management infrastructure that captures and organizes documents for fast search and access, and manages leasing contracts and correspondence. It offers a user-friendly interface, simple administration, rapid integration and absolute data security.

Mystro (Human Resources Management System)

Mystro was adopted to enable the organization to become more efficient, productive and better organized in terms of configuring company policies, consolidating employee profile, maintaining organization structure, calculating salary payouts, and integrating Time Attendance (TA).

The system interfaces with a self-service website that enables employees to access the desired level of information and generate customized reports.

New Website (aqarat.com.kw)

A dynamic new corporate website was created to showcase the company online. The new website has smartphone interactive capabilities and has a contemporary design with up-to-date content.

Financial Statements

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Independent auditors' report

Al Johara Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait
Tel : +965 2242 6999
Fax : +965 2240 1666
www.bdo.com.kw

Grant Thornton
Al-Qatami, Al-Aiban & Partners
Auditors & Consultants
Souq Al Kabeer Building - Block A - 9th Floor
Tel: (965) 2244 3900-9
Fax: (965) 2243 8451
P.O. Box: 2986, Safat 13030 - Kuwait
E-mail: gt@gtkuwait.com

To the shareholders of
Kuwait Real Estate Company – KPSC
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Real Estate Company – KPSC and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Independent auditors' report

BDO

Grant Thornton
Al-Qatami, Al-Aiban & Partners

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuwait Real Estate Company – KPSC and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the 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. 25 of 2012, and its executive regulations and the Company's articles and memorandum 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. 25 of 2012, and its executive regulations nor of the Company's articles and memorandum of association, as amended, have occurred during the financial year ended 31 December 2014 that might have had a material effect on the business or financial position of the Company.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Qais M. Al Nisf
(Licence No. 38-A)
of BDO Al Nisf & Partners

Kuwait
19 February 2015

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Consolidated statement of income

For the year ended 31 December 2014

	Notes	Year ended 31 Dec 2014 KD	Year ended 31 Dec 2013 KD
Revenue			
Real estate rental income		**13,508,312**	11,808,212
Real estate operating expenses		**(7,928,194)**	(5,598,250)
Net rental income		**5,580,118**	6,209,962
Gain on sale of investment properties	10	**4,439,349**	1,425,413
Change in fair value of investment properties	10	**5,300,527**	6,461,857
Share of results of associates	13	**153,212**	581,559
Gain on sale of available for sale investments		**293,200**	412,454
Impairment of available for sale investments	12	**(5,178,066)**	(6,380,095)
Unrealized (loss)/gain on investments at fair value through statement of income		**(81,765)**	43,046
Dividends income		**425,637**	389,789
Foreign exchange gain		**174,680**	13,717
Interest income		**83,202**	55,807
Profit from recovery of debts of the parent company	8	**1,001,800**	-
Other income		**253,251**	104,734
Provision no longer required		**-**	1,623,681
		12,445,145	10,941,924
Expenses and other charges			
General and administrative expenses		**1,185,789**	919,630
Finance costs		**3,466,933**	2,397,600
Provision for loss from associate	13	**268,057**	262,817
Provision for doubtful debts		**-**	277,967
		4,920,779	3,858,014
Profit for the year before directors' remuneration, KFAS, NLST and Zakat		**7,524,366**	7,083,910
Directors' remuneration		**(70,000)**	(70,000)
Kuwait Foundation for the Advancement of Sciences (KFAS)		**(67,747)**	(63,755)
National Labour Support Tax (NLST)		**(188,187)**	(177,098)
Zakat		**(75,275)**	(70,839)
Profit for the year		**7,123,157**	6,702,218
Attributable to :			
Shareholders of the Parent Company		**7,126,273**	6,702,218
Non-controlling interests		**(3,116)**	-
Profit for the year		**7,123,157**	6,702,218
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	9	**7.87 Fils**	7.40 Fils

The notes set out on pages 33 to 67 form an integral part of these consolidated financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Year ended 31 Dec 2014 KD	Year ended 31 Dec 2013 KD
Profit for the year	**7,123,157**	6,702,218
Other comprehensive/(loss) income:		
Items that will be reclassified subsequently to consolidated statement of income:		
Available for sale investments:		
- Net change in fair value	**(4,777,400)**	(2,454,111)
- Transferred to consolidated statement of income on sale	**(658,594)**	(67,157)
- Transferred to consolidated statement of income on value impairment	**5,178,066**	6,380,095
Exchange differences arising on translation of foreign operation	**(12,076)**	15,107
Total other comprehensive (loss)/income	**(270,004)**	3,873,934
Total comprehensive income for the year	**6,853,153**	10,576,152
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent company	**6,856,269**	10,576,152
Non-controlling interests	**(3,116)**	-
Total comprehensive income for the year	**6,853,153**	10,576,152

The notes set out on pages 33 to 67 form an integral part of these consolidated financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Consolidated statement of financial position

As at 31 December 2014

	Notes	31 Dec.2014	31 Dec.2013
		KD	KD
Assets			
Non-current assets			
Equipment		103,847	103,423
Investment properties	10	142,888,171	112,781,965
Properties under development	11	96,907	63,502
Available for sale investments	12	53,033,787	48,909,057
Investments in associates	13	7,759,667	7,738,035
		203,882,379	169,595,982
Current assets			
Due from related parties	14	9,341,188	7,768,453
Accounts receivable and other debit balances	15	4,102,875	2,477,614
Investments at fair value through statement of income		106,900	72,591
Term deposits	16	1,309,197	4,998,337
Cash and banks balances	17	7,309,351	1,412,361
		22,169,511	16,729,356
Total assets		226,051,890	186,325,338
Equity and liabilities			
Equity			
Share capital	18	90,671,294	90,671,294
Share premium	18	3,425,191	3,425,191
Treasury shares	19	(208,149)	(208,149)
Treasury shares reserve	19	2,298,155	2,298,155
Statutory reserve	20	13,900,951	13,148,203
Voluntary reserve	20	1,744,796	992,048
Foreign currency translation reserve		32,713	44,789
Fair value reserve		6,489,217	6,747,145
Retained earnings		8,547,997	7,453,916
Total equity attributable to the shareholders of the Parent Company		126,902,165	124,572,592
Non-controlling interests	7	72,612	-
Total equity		126,974,777	124,572,592
Liabilities			
Non-current liabilities			
Borrowings	21	58,242,500	25,000,000
Term loans	22	4,390,174	4,353,000
Lease contracts commitment	23	5,129,538	5,664,206
Provision for employees' end of service benefits		792,557	583,970
Other provisions	13	739,358	471,300
		69,294,127	36,072,476
Current liabilities			
Due to related parties	14	156,151	86,312
Accounts payable and other credit balances	24	15,685,397	9,083,750
Borrowings – current portion	21	6,250,000	11,333,333
Term loans – current portion	22	582,000	582,000
Lease contracts commitment – current portion	23	7,109,438	4,594,875
		29,782,986	25,680,270
Total liabilities		99,077,113	61,752,746
Total equity and liabilities		226,051,890	186,325,338

Ibrahim Saleh Al-Therban
Chairman

The notes set out on pages 33 to 67 form an integral part of these consolidated financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Equity attributable to shareholders of the Parent Company											
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Sub - total	Non-controlling interests	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 31 December 2012	90,671,294	3,425,191	(208,149)	2,298,155	12,439,812	283,657	29,682	2,888,318	2,168,480	113,996,440	-	113,996,440
Profit for the year	-	-	-	-	-	-	-	-	6,702,218	6,702,218	-	6,702,218
Other comprehensive income	-	-	-	-	-	-	15,107	3,858,827	-	3,873,934	-	3,873,934
Total comprehensive income for the year	-	-	-	-	-	-	15,107	3,858,827	6,702,218	10,576,152	-	10,576,152
Transferred to reserves	-	-	-	-	708,391	708,391	-	-	(1,416,782)	-	-	-
Balance at 31 December 2013	**90,671,294**	**3,425,191**	**(208,149)**	**2,298,155**	**13,148,203**	**992,048**	**44,789**	**6,747,145**	**7,453,916**	**124,572,592**	**-**	**124,572,592**
Cash dividend (Note 26)	-	-	-	-	-	-	-	-	(4,526,696)	(4,526,696)	-	(4,526,696)
Proceeds from acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	75,728	75,728
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,526,696)**	**(4,526,696)**	**75,728**	**(4,450,968)**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	7,126,273	7,126,273	(3,116)	7,123,157
Other comprehensive loss	-	-	-	-	-	-	(12,076)	(257,928)	-	(270,004)	-	(270,004)
Total comprehensive (loss)/income for the year	-	-	-	-	-	-	(12,076)	(257,928)	7,126,273	6,856,269	(3,116)	6,853,153
Transferred to reserves	-	-	-	-	752,748	752,748	-	-	(1,505,496)	-	-	-
Balance at 31 December 2014	**90,671,294**	**3,425,191**	**(208,149)**	**2,298,155**	**13,900,951**	**1,744,796**	**32,713**	**6,489,217**	**8,547,997**	**126,902,165**	**72,612**	**126,974,777**

The notes set out on pages 33 to 67 form an integral part of these consolidated financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Consolidated statement of cash flow

For the year ended 31 December 2014

	Note	Year ended 31 Dec 2014 KD	Year ended 31 Dec 2013 KD
OPERATING ACTIVITIES			
Profit for the year		7,123,157	6,702,218
Adjustments:			
Depreciation		51,895	45,549
Gain on sale of equipment		(1,137)	-
Finance costs		3,466,933	2,397,600
Gain on sale of investment properties	10	(4,439,349)	(1,425,413)
Change in fair value of investment properties	10	(5,300,527)	(6,461,857)
Share of results of associates	13	(153,212)	(581,559)
Gain on sale of available for sale investments		(293,200)	(412,454)
Impairment of available for sale investments	12	5,178,066	6,380,095
Loss/(gain) from investments at fair value through statement of income		81,765	(43,046)
Provision for doubtful debts		-	277,967
Dividends income		(425,637)	(389,789)
Profit from recovery of debts of the parent company		(1,001,800)	-
Interest income		(83,202)	(55,807)
Provision no longer required		-	(1,623,681)
Provision for loss from associate		268,057	262,817
Provision for employees' end of service benefit		126,941	39,678
Lease contracts commitments		4,277,332	2,782,669
		8,876,082	7,894,987
Changes in operating assets and liabilities:			
Due from related parties		(1,572,735)	603,910
Accounts receivable and other debit balances		(610,431)	(509,840)
Accounts payable and other credit balances		6,146,877	614,875
Due to related parties		69,839	462,401
Lease contracts commitments paid		(2,297,437)	(2,503,409)
Other provisions		-	241,204
Employees' end of service benefit paid		(5,461)	(152,755)
Net cash from operating activities		10,606,734	6,651,373
INVESTING ACTIVITIES			
Purchase of equipment		(37,106)	(82,415)
Proceeds from sale of equipment		2,299	-
Additions to properties under development		(2,874,114)	(961,224)
Purchase of investment properties	10	(28,096,956)	(1,212,470)
Proceeds from sale of investment properties	10	10,545,290	6,225,413
Purchase of shares in associate	13	(152,500)	-
Dividends received from associated companies	13	284,080	214,374
Purchase of available for sale investments		(12,234,307)	(6,465,762)
Proceeds from sale of available for sale investments		2,328,879	1,095,046
Purchase of investment at fair value through statement of income		(47,881)	-
Net movement of term deposit		3,689,140	(4,998,337)
Dividends income received		425,637	389,789
Interest income received		83,202	55,807
Net cash used in investing activities		(26,084,337)	(5,739,779)
FINANCING ACTIVITIES			
Net change in Borrowings		28,159,167	(1,333,333)
Net change in term loans		37,174	(291,000)
Finance costs paid		(3,466,933)	(2,397,600)
Cash dividends paid		(4,189,885)	-
Net cash from/(used in) financing activities		20,539,523	(4,021,933)
Net increase/(decrease) in cash and bank balances		5,061,920	(3,110,339)
Net cash resulted from acquisition of a subsidiary	7	835,070	-
Cash and banks balances at the beginning of the year	17	1,412,361	4,522,700
Cash and bank balances at the end of the year	17	7,309,351	1,412,361

The notes set out on pages 33 to 67 form an integral part of these consolidated financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

1. Incorporation and activities of the parent company

Kuwait Real Estate Company – KPSC (Parent Company) was incorporated in 1972 as a Kuwaiti public shareholding company in accordance with the provisions of the Companies Law in the State of Kuwait. The Parent Company's shares are listed on Kuwait Stock Exchange.

The Group comprises the Parent Company and its subsidiaries (Collectively referred to as "the Group"). The details of the subsidiaries are described in Note 7.

The main activities of the Parent Company are as follows:

- Carry out various real estate works for achieving profit, including sale, purchase, renting out and leasing of lands and real estate properties, erect buildings, prepare and implement studies of the private and public real estate projects directly or through mediation whether in Kuwait or abroad.
- Carry out various building works and related works whether for its account or for the account of third parties and import, trade in all materials related to real estate and other works related or necessary thereto.
- Invest in companies' shares or projects similar to the company's objectives or manage and direct such institutions in such a way that achieves interest.
- Build housing whether for citizens or government employees or the employees of official or private authorities against receiving their value from them either in cash or on installments.
- Carry out contracting works in general whether directly or through participation with other contracting companies or representing same.
- Manage others' properties in Kuwait and abroad.
- Erect private and public buildings and projects, including malls, entertainment centers, touristic utilities and implement them directly or through third parties in Kuwait or abroad and rent out or sell same in cash or on installments after approval by the competent authorities.
- Create, manage or share third parties in real estate investment funds only whether in Kuwait or abroad to employ and invest funds on behalf of others after approval by the competent authorities.
- Do various real estate works for achieving profit, including acquisition, sale and purchase of lands and real estate properties and develop them for the account of the company inside and outside Kuwait, rent out and lease same and erect buildings.
- Prepare studies and provide consultations in all kinds of real estate fields, provided the required terms and conditions are met by those who offer this service.
- Acquire, sell and purchase shares and bonds of the companies or projects similar to the company's objectives or manage such institutions and direct same in such a way that achieves interest.
- Acquire movables and real estate properties necessary to conduct its activity within the limits permitted by the law and in compliance with its objectives.
- Perform maintenance works related to the buildings and properties owned by the company and others, including civil, mechanical and electri cal works, elevators and air conditioning works in such a way that maintains buildings and their safety.
- Organize real estate exhibitions for the company›s real estate projects.
- Hold real estate auctions.
- Utilize the surplus funds available with the company by investing same in financial portfolios managed by specialized companies and entities inside and outside Kuwait.
- Contribute directly to set out the basic structure of the residential, commercial areas and projects by "Building, Operation & Transfer" (BOT) system and manage the real estate utilities by BOT system.

The company has the right to perform the above mentioned activities inside and outside the State of Kuwait directly or through an agent. The company may have an interest or participate in any aspect with the entities performing similar works or which might assist it in the achievement of its objectives in Kuwait or abroad. The company may also establish, participate in or acquire such entities or make them subsidiaries to itself.

The extraordinary general assembly of the parent company's shareholders held on 4 May 2014 approved amendment of the Memorandum and Articles of Association of the parent company in compliance with the requirements of the Companies Law No. (25) of 2012 and its executive regulations, as amended.

The address of the parent company's registered office is PO Box 1257, Safat 13013, State of Kuwait.

This Consolidated Financial statements for the year ended 31 December 2014 were authorised for issue by the parent company's board of directors on 19 February 2015 and they are subject to the approval of the shareholders' general assembly and official authorities. The parent company's shareholders have their right to amend these consolidated statements at the annual general assembly meeting.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

2. Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for investment at fair value through statement of income, available for sale investment and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the functional currency of the parent company.

3. Statement of compliance

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

4. Changes in accounting policies

The accounting policies adopted in the preparation of the group's consolidated financial statements are consistent with those used in previous year except as discussed below:

4.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2014. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IAS 32 Financial Instruments: Presentation - Amendments	1 January 2014
IAS 36 Impairment of Assets- Amendments	1 January 2014
IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments	1 January 2014
Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
IFRIC 21 Levies	1 January 2014

IAS 32 Financial Instruments: Presentation - Amendments

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off
- that some gross settlement systems may be considered equivalent to net settlement.

The amendments are required to be applied retrospectively. The adoption of the amendment did not result into any material impact on the group's consolidated financial statements.

IAS 36 Impairment of Assets - Amendments

The amendments to IAS 36 reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The adoption of the amendment did not result into any material impact on the group's consolidated financial statements.

The amendments have been applied retrospectively in accordance with their transitional provisions.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments

The Amendments to IAS 39 Financial Instruments: Recognition and Measurement make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the group (continued)

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The adoption of the amendments did not result into any material impact on the group's consolidated financial statements.

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

The Amendments define the term 'investment entity', provide supporting guidance and require investment entities to measure investments in the form of controlling interests in another entity at fair value through profit or loss.

The adoption of the amendment did not result into any material impact on the group's consolidated financial statements.

IFRIC 21 Levies

IFRIC 21 clarifies that:

a) the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the government's legis lation. If this activity arises on a specific date within an accounting period then the entire obligation is recognised on that date

b) the same recognition principles apply in the annual and interim financial statements.

IFRIC 21 is required to be applied retrospectively in accordance with its transitional provisions and had no material effect on the consolidated financial statements for any period presented.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

Standard or Interpretation	Effective for annual periods beginning
IFRS 9 Financial Instruments: Recognition and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	1 January 2016
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations -Amendments	1 January 2016
IAS 1 ‹Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016
Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments

The IASB has replaced IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. IFRS 9 (2014) incorporates the final requirements on all three phases of the financial instruments projects: classification and measurement, impairment and hedge accounting.

The group's management has yet to assess the impact of this new standard on the group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 "Revenue", IAS 11 "Construction Contracts" and several revenue–related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- timing – whether revenue is required to be recognized over time or at a single point in time
- variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- time value – when to adjust a contract price for a financing component
- specific issues, including –
    - non-cash consideration and asset exchanges
    - contract costs
    - rights of return and other customer options
    - supplier repurchase options
    - warranties
    - principal versus agent
    - licencing
    - breakage
    - non-refundable upfront fees, and
    - consignment and bill-and-hold arrangements.

The group's management has yet to assess the impact of IFRS 15 on these consolidated financial statements.

IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor›s financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in an subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments

Amendments to IFRS 11 Joint Arrangements require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. It also requires disclosure of the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations.

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- *Materiality:* The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

- *Statement of financial position and statement of profit or loss and other comprehensive income:* The amendments (1) introduce a clarifi cation that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity›s share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

- *Notes*: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The groups' management has yet to assess the impact of these new standards on the group's financial statements.

IAS 27 Equity Method in Separate Financial Statements - Amendments

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

The groups' management has yet to assess the impact of this new standard on the group's financial statements.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception' - Amendments
The Amendments are aimed at clarifying the following aspects:

- *Exemption from preparing consolidated financial statements*. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- *A subsidiary providing services that relate to the parent›s investment activities*. A subsidiary that provides services related to the parent›s investment activities should not be consolidated if the subsidiary itself is an investment entity.
- *Application of the equity method by a non-investment entity investor to an investment entity investee.* When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- *Disclosures required.* An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The groups' management has yet to assess the impact of these new standards on the group's financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle:
(i) Amendments to IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued

(ii) Amendments to IFRS 7 - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

(iii) Amendments to IAS 9 - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

(iv) Amendments to IAS 34 - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

Annual Improvements to IFRSs 2010–2012 Cycle:
(i) Amendments to IFRS 3-Contingent consideration that does not meet the definition of an equity instrument is subsequently measured at each reporting date fair value, with changes recognised in consolidated statement of income.

(ii) Amendments to IFRS 13- The addition to the Basis for Conclusions confirms the existing measurement treatment of short-term receivables and payables.

(iii) Amendments to IFRS 8- Disclosures are required regarding judgments made by management in aggregating operating segments (i.e. description, economic indicators).
A reconciliation of reportable segments' assets to total entity assets is required if this is regularly provided to the chief operating decision maker.

(iv) Amendments to IAS 16 and IAS 38- When items are revalued, the gross carrying amount is adjusted on a consistent basis to the revaluation of the net carrying amount.

(v) Amendments to IAS 24- Entities that provide key management personnel services to a reporting entity, or the reporting entity's parent, are considered to be related parties of the reporting entity.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Annual Improvements 2011-2013 Cycle:

(i) Amendments to IFRS 1-the amendment to the Basis for Conclusions clarifies that an entity preparing its IFRS financial statements in accordance with IFRS 1 is able to use both:

- IFRSs that are currently effective
- IFRSs that have been issued but are not yet effective, that permits early adoption

The same version of each IFRS must be applied to all periods presented.

(ii) Amendments to IFRS 3- IFRS 3 is not applied to the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(iii) Amendments to IFRS 13- the scope of the portfolio exemption (IFRS 13.52) includes all items that have offsetting positions in market and/ or counterparty credit risk that are recognised and measured in accordance with IAS 39/IFRS 9, irrespective of whether they meet the definition of a financial asset/liability.

(iv) Amendments to IAS 40 - Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as an investment property or owner-occupied property

5. Significant accounting policies

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

5.1 Basis of consolidation

The group controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed of, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of income.

Changes in the group›s ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group›s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in consolidated statement of income immediately.

5.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

5.3.1 Rental income

Rental income is recognised on an accrual basis.

5.3.2 Dividends

Dividend income is recognised when the group's right to receive the payment is established.

5.3.3 Interest income and similar income

Interest income is recognised on accrual basis using the effective interest method

5.4 Finance costs

Finance costs are calculated and recognised on a time proportionate basis taking into account the principal finance balance outstanding and the income/cost rate applicable.

5.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Other lease contracts are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets in the consolidated statement of financial position at the current value estimated for the minimum of amounts paid for lease. The corresponding liability to the lesser is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.6 Equipment

Equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of equipment.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated income statement.

5.7 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within change in fair value of investment property.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under plant and equipment up to the date of change in use.

5.8 Properties under development

Incurred costs are charged to construction or production of capital assets under properties under development till construction or production of these assets is complete, at which time it is reclassified as plant and equipment, investment property, or trading properties. Costs include all direct costs and other costs attributable on reasonable basis.

5.9 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.10 Impairment testing of non financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.11 Financial instruments

5.11.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

- rights to receive cash flows from the assets have expired;

- 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 risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

5.11.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through statement of income (FVTSI)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTSI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.2 Classification and subsequent measurement of financial assets (continued)

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The Group categorises loans and receivables into following categories:

• Trade receivables

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

• Cash and bank balances

Cash and bank balances comprise cash on hand, bank balances and balances with managed investment portfolios.

• Financial assets at FVTSI

Classification of investments as financial assets at FVTSI depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTSI upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

• AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated income statement.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.3 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, credit facilities, trade and other payables.
The subsequent measurement of financial liabilities depends on their classification as follows:

• *Trade payables*

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

• *Borrowings*

Borrowings represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

• *Terms loans*

Term loans are carried on the date of consolidated statements of financial position at their principal amounts. Interests is charged as an expense as it accrues, with unpaid interests included in the creditors' balances. All borrowings are subsequently measured at amortised cost using the effective interest rate method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss, are included within finance costs or finance income.

5.11.4 Amortized cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

5.11.5 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognized on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.11.6 Offsetting of financial instruments

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

5.11.7 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

5.12 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.12 Equity, reserves and dividend payments (continued)

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings includes all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

5.13 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

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

5.14 Treasury shares

The company's holding in its own shares is accounted for as treasury shares. Such shares are stated at cost as a deduction within equity and no cash dividends are distributed on these shares.

Gains resulting from the sale of treasury shares are taken directly to equity under "gain on sale of treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained earnings then reserves. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained earnings equal to the loss previously charged to these accounts.

5.15 Segment reporting

The Group has two operating segments: the real estate and investment segments. In identifying these operating segments, management generally follows the Group's significant services for each segments. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

5.16 Foreign currency translation

5.16.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.16.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

5. Significant accounting policies (continued)

5.16 Foreign currency translation (continued)

5.16.3 Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

5.17 End of service indemnity

The Group provides end of service benefits to 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

With respect to its Kuwaiti 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.

5.18 Taxation

5.18.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.18.2 National Labour Supporting tax

The National Labour Support Tax (NLST) is calculated at 2.5% of the group's profit in accordance with the Ministry of Finance resolution No. 24 for the year 2008 and Law No. 19 for the year 2000.

5.18.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

6. Significant management judgments and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However 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.

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

6. Significant management judgments and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.1 Classification of financial instruments (continued)

Classification of financial assets as fair value through income statement depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6.1.2 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

6.1.3 Control assessment

When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

6.2.1 Impairment of associates

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

6.2.2 Impairment of available for sale equity investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

6.2.3 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

6.2.4 Revaluation of investment properties

The group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of profit or loss. The group engaged independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in a arm's length transaction at the reporting date.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

6. Significant management judgments and estimation uncertainty (continued)

6.3 Impairment losses on loans and advances

The group reviews defaulted loans and advances and on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ from what is estimated resulting in future changes to such provisions.

7. Subsidiary companies

Subsidiary company	Country of incorporation	Voting Rights and Ownership Percentage		Activity
		31 Dec. 2014	31 Dec. 2013	
Kuwait Industrial Marble Manufacturing – KSC (Closed)	Kuwait	**56.73%**	56.73%	Producer of industrial marble
Habara Pearl Farm Company – American Shareholding Company	America	**100%**	100%	Investment
Al-Aqdain Kuwaiti for Real Estate Development Company – KSC (Closed)	Kuwait	**96%**	96%	Real estate
Kuwait Financial Group Company – KSC (Holding)	Kuwait	**89.54%**	49.97%	Investment

7.1 Subsidiary companies

During the year ended 31 December 2013, the group finalised the incorporation procedures of its 96% owned subsidiary Al-Aqdain Kuwaiti for Real Estate Development Company – KSC (Closed) with a share capital of KD2,000,000. The company did not contribute to the consolidated statement of income for the current year.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

7. Subsidiary companies (continued)

7.2 Business combination

During the current year, the parent company participated in the increase of the share capital of Kuwait Financial Group Company – KSC (Holding) located in the State of Kuwait, to become the main shareholder with 89.54% ownership. The Group reclassified this investment from available for sale investment to investment in a subsidiary starting from 1 October 2014 due to the Group's management acquiring control over that investee.

The following is the provisional fair value of the assets and liabilities specified at the date of acquisition of the above subsidiary:

Kuwait Financial Group Company – KSC (Holding)	**As at 30 Sept 2014 KD**
Cash and bank balances	835,070
Investments at fair value through statement of income	68,193
Other assets	9,405
Equipment	16,375
Total assets	929,043
Accrued expenses and other liabilities	117,959
Provision for end of service indemnity	87,107
Total liabilities	205,066
Net assets	723,977
Purchase consideration (book value of the available for sale investment transferred)	648,249
Share of the net assets purchased	(648,249)
Goodwill	-
Purchase consideration	-
Cash balances from acquisition	(835,070)
Net cash from acquisition	835,070

The fair value of the specified and acquired assets and liabilities has been temporarily determined by the parent company's management. The above mentioned estimations and the resulting goodwill are subject to revision within 12 months from the acquisition date.

7.3 Subsidiaries with material non-controlling interests

The Group does not have subsidiaries with material non-controlling interests. No dividends have been paid to the non-controlling interests during the year ended 31 December 2014.

7.4 Interests in the unconsolidated structured entities (NIC)

The Group does not have interests in the unconsolidated structured entities.

8. Profit from recovery of debts of the parent company

During the year, the parent company received a credit advice of KD1,001,800 from the Kuwait International Investment Company – KSC (Closed) in return for the amounts that the parent company settled against its debt to the Kuwait International Investment Company - KSC (Closed) (notes 14 and 25). Subsequent to the financial statements' date, the amount was received in full.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

9. Basic and diluted earnings per share attributable to shareholders of the parent company

Basic and diluted earnings per share attributable to the shareholders of the parent company is calculated by dividing the profit for the year attributable to shareholders of the parent company by weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2014	Year ended 31 Dec. 2013
Profit for the year attributable to shareholders of the parent company (KD)	**7,126,273**	6,702,218
Weighted average number of shares outstanding during the year(excluding treasury shares) (share)	**905,339,849**	905,339,849
Basic and diluted earnings per share attributable to shareholders of the parent company	**7.87 Fils**	7.40 Fils

10. Investment properties

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Fair Value at the beginning of the year	**112,781,965**	105,468,940
Additions during the year – below	**28,096,956**	4,640,697
Transferred from properties under development (note 11)	**2,840,709**	1,042,043
Disposals during the year	**(6,105,941)**	(4,800,000)
Change in fair value	**5,300,527**	6,461,857
Foreign currency translation difference	**(26,045)**	(31,572)
Fair Value at the end of the year	**142,888,171**	112,781,965

a) During the Year, the group acquired a plot of land in AL-Bidae - coast line area in Kuwait amounting to KD25,500,000.

b) The fair value of the local investment properties were valued by an independent accredited external valuer and a local bank. The foreign investment properties have been valued by two external, licensed and independent valuers. Valuation have not been done for investment properties with cost amounting to KD28,096,956 due to their recent purchase, in the management's opinion, the values of these investment properties approximate their fair values. The management has approved the lowest valuation for all of its investment properties on individual basis.

c) During the year, the group purchased investment properties amounting to KD946,700 (2013: Investment properties amounting to KD3,491,370) from related parties. (Note 25)

d) During the year, the group sold investment properties with a total sale value of KD10,545,290 which resulted in a selling gain of KD4,439,349 (2013: sold investment properties with a total sale value of KD6,225,413 resulting in a gain of KD1,425,413).

e) Investment properties of KD92,857,957 (KD90,884,000 as of 31 December 2013) are pledged against borrowings and term loans (notes 21 and 22).

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

11. Properties under development

Properties under development represent cost incurred by the group to carry out renovations and developments to its investment properties. These development costs are added to carrying value of the investment properties upon completion of all the work.

The movement for the properties under development are as follows:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
As of 1 January	**63,502**	144,321
Addition during the year	**2,874,114**	961,224
Transferred to investment properties (note 10)	**(2,840,709)**	(1,042,043)
As of 31 December	**96,907**	63,502

12. Available for sale investments

Available for sale investments represent the following:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Local quoted securities	**19,682,943**	28,629,921
Local unquoted securities	**10,149,062**	6,975,554
Foreign unquoted securities	**23,085,764**	13,065,762
Managed funds	**116,018**	237,820
	53,033,787	48,909,057

- The Group's management recognized an impairment loss for certain available for sale investments amounting to KD5,178,066 (KD6,380,095 for the year ended 31 December 2013) carried in the consolidated statement of income. The management has made an analysis for the relevant remaining available for sale investments which indicates no further impairment in their value.
- The unquoted local and foreign securities include investments amounting to KD870,021 (KD1,095,888 as at 31 December 2013) carried at cost net of impairment due to non-availability of financial information that enable us to measure their fair values in a reliable manner. The Group's management believes that the information available for these investments does not indicate impairment in value.
- Investments amounting to KD3,126,426 (KD3,511,000 in 31 December 2013) are managed by a related party.
- Available for sale investments amounting to KD4,976,081 have been purchased from related parties (2013: purchase of investments amounting to KD2,250,000 from a related party) (Note 25).
- An investment amounting to KD648,249 has been reclassified from available for sale investment to investment in a subsidiary (Note 7).

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

13. Investments in associates

13.1 Details of the associates

Details of the associates are set out below:

	Country of incorporation	Voting rights and ownership percentage 31 Dec. 2014 %	31 Dec. 2013 %	Activity
Kuwait Building Materials Manufacturing – KPSC (note a)	Kuwait	**24.58**	24.58	Manufacturing
National Slaughters Houses – KPSC (note a)	Kuwait	**44.22**	44.22	Consumer goods
First Slaughters Company – KSC (note b)	Kuwait	**20.51**	20.51	Consumer goods
ABC Real Estate Company – WLL (note b)	Kuwait	**46**	44	Real estate
IFA Hotels and Resorts Co. – KPSC (note a)	Lebanon	**49**	49	Real estate

Notes:

a- The Group's share of the results of these companies has been recognized based on the unaudited financial information for the nine-month period ended 30 September 2014.

b- The Group's share of the results of these companies has been recognized based on financial information prepared by the management for the nine-month period ended 30 September 2014.

c- During the year, the Group purchased two additional shares in ABC Real Estate Company – W.L.L for KD152,500. The purchase of the additional shares has not resulted in any goodwill or profit.

d- Under IAS 28, the Group has reduced its investment in IFA Hotels and Resorts – LSC (Lebanon) to KD1 and has stopped recognizing its share of losses thereafter under the same standard. The group's share of the total unrecognized accumulated losses of the associate amounted to KD739,358 that was included in the other provisions in the consolidated financial position.

If the associate has subsequently realized profits, the Group will recognize its share of these profits when its share of those profits equals its share of the total unrecognized accumulated losses.

13.2 Following is the movement for the investments in associates during the year:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Balance at beginning of the year	**7,738,035**	7,370,850
Additions during the year (note c given above)	**152,500**	-
Dividends received during the year	**(284,080)**	(214,374)
Share in results for the year	**153,212**	581,559
Balance at end of the year	**7,759,667**	7,738,035

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

13. Investments in associates (continued)

13.3 Summary of the financial information of the associates

Summary of the financial information of the significant associates to the Group is as follows:

a) ABC Real Estate Company – W.L.L

	30 Sept. 2014 KD	30 Sept. 2013 KD
Non-current assets	20,747,744	20,333,328
Current assets	4,122,658	2,955,772
Total assets	24,870,402	23,289,100
Non-current liabilities	10,771,278	7,647,922
Current liabilities	4,987,549	6,652,558
Total liabilities	15,758,827	14,300,480
Net assets	9,111,575	8,988,620
Revenue	4,950,677	1,052,578
Expenses for the year	4,764,384	429,005
Profit for the year	186,293	623,573
Total comprehensive income for the year	186,293	623,573
Group's share in the results of the associate	83,832	274,362

Reconciliation of the summary of the financial information of the above associate with the carrying value in the consolidated statement of financial position is given below:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Share of the Group's ownership (%)	46	44
Net assets of the associate	9,111,575	8,988,620
Group's share of net assets	4,191,325	3,954,993
Carrying value	4,191,325	3,954,993

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

13. Investments in associates (continued)

13.3 Summary of the financial information of the associates (continued)

The remaining associates are individually considered immaterial to the Group.

The following is the aggregate information of the immaterial associates as at 2014 and 2013:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Group's share of income or loss	69,380	307,197
Group's share of other comprehensive income	-	-
Group's share of the total comprehensive income	69,380	307,197
Total book value of the group's share in these associates	3,568,342	3,783,042

Dividends received from these associates during the year amounted to KD 284,080 (2013: KD 214,374).

14. Due from/to related parties

	31 Dec. 2014 KD	31 Dec. 2013 KD
Due from related parties:		
Due from ABC Real Estate Company - WLL (Associate Company)	2,869,137	2,934,165
Due from IFA Hotels and Resorts Company – SAL (Associate Company)	4,569,274	4,254,800
Kuwait International Investment Company – KSC (Closed) (note 8)	1,001,800	-
International Financial Advisers CO – KPSC	320,278	331,690
International Resorts Company - KPSC	1,080,699	741,548
Due from other related parties	-	6,250
Provision for doubtful debts	(500,000)	(500,000)
Total	9,341,188	7,768,453
Due to related parties:		
IFA for Advisory Service Co- WLL	155,000	86,162
Due to related parties	1,151	150
Total	156,151	86,312

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

15. Accounts receivable and other debit balances

	31 Dec. 2014 KD	31 Dec. 2013 KD
Accounts receivable	**3,442,867**	2,151,700
Provision for doubtful debts	**(800,000)**	(800,000)
	2,642,867	1,351,700
Prepaid expenses	**22,008**	24,135
Refundable deposits	**27,010**	24,316
Other debit balances	**1,410,990**	1,077,463
	4,102,875	2,477,614

16. Term deposits

Term deposits are annual financial deposits at local and foreign banks. The average interest rate on these deposits range between 1% to 2.25% (2013: 1.2% to 1.25%) annually.

17. Cash and banks balances

	31 Dec. 2014 KD	31 Dec. 2013 KD
Cash and bank balances	**7,294,294**	1,163,432
Cash in investment portfolios managed by others	**15,057**	248,929
Cash and banks balances	**7,309,351**	1,412,361

18. Capital and share premium

At 31 December 2014 and 31 December 2013, the authorized, issued and fully paid up share capital of the parent company comprised of 906,712,940 shares of 100 fils each. All shares are cash shares.
Share premium balance is not available for distribution.

19.Treasury shares

At 31 December 2014, the parent company held 1,373,091 shares of its treasury shares equivalent to 0.151% of the total issued shares (31 December 2013: 1,373,091 treasury shares equivalent to 0.151%). The market value of the treasury shares amounted to KD97,489 (31 December 2013: KD131,817). Reserves equivalent to the cost of the treasury shares have been earmarked as non-distributable.

20.Statutory and voluntary reserve

In accordance with the Companies Law and the parent company›s Articles of Association, 10% of the profit for the year (before contributions to KFAS, NLST, Zakat provision and director remuneration) is transferred to statutory reserve. The general assembly of the parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

20.Statutory and voluntary reserve (continued)

The statutory reserve may not be used except in covering the Group's losses or to ensure dividends to shareholders at a maximum percentage of 5% of the paid-up share capital in the years in which the company's profits do not allow distribution of this percentage due to lack of a voluntary reserve that allows distribution of this percentage of profits. The amount distributed from the statutory reserve must be returned thereto when the profits of the following years allow so, unless this reserve exceeds 50% of the issued share capital.

In accordance with the parent company's articles of Association 10% of the profit for the year (before contributions to KFAS, NLST, Zakat provision and director remuneration) is transferred to voluntary reserve. There are no restrictions on the distribution of the voluntary reserve.

21. Borrowings

			Maturing date		
	Amount KD	**Annual Profit rate %**	**Within a year KD**	**Over one year KD**	**Mortgages Provided**
Working Capital financing Murabaha	5,000,000	1.75	5,000,000	-	16 properties of the Group's local properties
Renewable Islamic Murabaha	34,992,500	2.4	-	34,992,500	
Islamic Murabaha	24,500,000	2.25	1,250,000	23,250,000	Pearl Marzouq property
Total as of 31 December 2014	**64,492,500**		**6,250,000**	**58,242,500**	
Total as of 31 December 2013	36,333,333		11,333,333	25,000,000	

During the year, the group obtained credit facilities from an Islamic financing institution in the State of Kuwait, amounting to KD24,500,000 to expand the real estate activity of the group.

All the profit rates are over the Central Bank of Kuwait discount rate.

22. Term loans

			Maturing date		
	Amount KD	**Effective interest rate %**	**Within a year KD**	**Over one year KD**	**Mortgages Provided**
Qatar National Bank Loan	4,353,000	5	582,000	3,771,000	Two local properties
JPMorgan Chase – USA Loan	619,174	4	-	619,174	One property in USA
Total as of 31 December 2014	**4,972,174**		**582,000**	**4,390,174**	
Total as of 31 December 2013	4,935,000		582,000	4,353,000	

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

23. Lease contracts commitment

Lease contracts commitment represents the accrued rental value on the group for both Souk Al-Kuwait and Souk Al-Kabeer buildings in accordance with the BOT contracts signed with the Ministry of Finance - State properties.

Expense provision for lease contracts commitment for the current year amounting to KD4,277,332 (31 December 2013: KD2,782,669) was included in real estate operating costs.

During the year ended 31 December 2013, the parent company won a contract for the project of the management, development, operation and maintenance of Souk Al-Kabeer and Souk Al-Kuwait real estate properties for a period of ten years. The final agreements for those properties have been signed on 1 October 2013, by which, the parent company shall pay annual rental amount of KD4,812,000 starting 1 January 2015. The total rental amount has been charged to the full contract term beginning on the date of signing the final agreements on 1 October 2013.

Furthermore, The parent company had issued letters of guarantee amounting to KD7,049,120 as per the after mentioned agreements (note 31).

Installments due within one year from the date of the financial position are included under current liabilities.

24. Accounts payable and other credit balances

	31 Dec. 2014 KD	31 Dec. 2013 KD
Accounts payable - below	**5,360,632**	4,018,087
Accrued expenses and leave	**1,140,955**	375,015
Kuwait Foundation for the Advancement of Science	**67,747**	63,775
National Labour Support Tax	**2,608,264**	2,420,077
Zakat	**189,799**	114,524
Dividends payable	**1,196,923**	860,112
Payments received in advance on sale of investment properties – below	**4,362,388**	859,748
Other credit balances	**688,689**	302,412
Directors' remuneration	**70,000**	70,000
	15,685,397	9,083,750

During the year, the procedures for selling certain plots of lands in Mahboula area in Kuwait were completed, which the group shares with other parties. This has resulted in a profit of KD565,084 for the group which was included in the gain on sale of investment properties in the consolidated statement of income for the current year. The amounts received, on behalf of the other parties, as a result of such sale transaction were recognized, within accounts payable above.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

25. Related parties transactions

Related parties represent associates, directors and key management personnel of the group, and other related parties such as major shareholders and companies in which directors and key management personnel of the parent company are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the parent company management.

Details of significant related party transactions and balances are as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Consolidated statement of financial position:		
Purchase of investment properties	946,700	3,491,370
Purchase of available for sale investments	4,976,081	2,250,000
Due from related parties	9,341,188	7,768,453
Due to related parties	156,151	86,312

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Consolidated statement of income:		
Real estate operating expenses	564,813	500,153
General and administrative expenses	231,500	205,000
Directors' remuneration	70,000	70,000
Profit from recovery of debts of the parent company (Note 8)	1,001,800	-
Provision no longer required	-	532,126
Provision for doubtful debts	-	277,967
Key management compensation:		
Salaries and short-term benefits	275,076	275,076
Employees' end of service benefit	30,000	30,000

During the year, the parent company obtained a new Islamic murabaha facilities amounting to KD24,500,000 (Note 21) which was used in full to settle the value of an investment land in Al-Bida'a area – coastline in the State of Kuwait (Note 10 – a) on which an investment project managed by the associate (ABC Real Estate Company – W.L.L) is erected.

Up to the issuance of these financial statements, all contracts and arrangements of that purchased land have not been completed with the associate whether in relation to the costs associated with the above Islamic murabaha facilities or the revenue related to leasing the land to the associate.

26. Proposed dividend

Subject to the approval of the official authorities and the general assembly of the parent company's shareholders, the parent company's board of directors recommends cash dividends at the rate of 5% of the nominal value or 5 Kuwaiti Fils per share to the shareholders recorded in the parent company's records at the date of the general assembly.

The parent company's board of directors also recommends distribution of remuneration to the directors amounting to KD70,000 that was carried in the

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

26. Proposed dividend (continued)

The general assembly held on 4 May 2014 approved distribution of cash dividends at the rate of 5% or 5 Kuwaiti Fils per share amounting to KD 4,526,696 to the shareholders recorded at the holding date for the year ended 31 December 2013 (No dividends were recommended for the year ended 31 December 2012).

The general assembly also approved distribution of remuneration to the directors amounting to KD70,000 paid and carried in the consolidated statement of income for the year ended 31 December 2013 (Nil for the year ended 31 December 2012).

27. Segmental analysis

The group operates in two business segments; real estate and investment. The segmental analysis of total income and net profit for the business segments are as follows:

	Real estate KD	Investment KD	Non-distributable KD	Total KD
Year ended 31 December 2014:				
Total income	23,248,188	1,875,286	427,931	25,551,405
Profit/(loss) for the year	11,853,061	(3,570,837)	(1,159,067)	7,123,157
As of 31 December 2014:				
Total assets	147,087,953	68,338,765	10,625,172	226,051,890
Total liabilities	81,703,663	16,424,742	948,708	99,077,113
Net assets	65,384,290	51,914,023	9,676,464	126,974,777
Year ended 31 December 2013:				
Total income	19,695,482	3,106,336	118,451	22,920,269
Profit/(loss) for the year	11,699,632	(3,814,543)	(1,182,871)	6,702,218
As of 31 December 2013:				
Total assets	115,323,081	63,908,648	7,093,609	186,325,338
Total liabilities	51,527,414	9,555,050	670,282	61,752,746
Net assets	63,795,667	54,353,598	6,423,327	124,572,592

28. Risk management objectives and policies

The company's activities expose it to variety of financial risks: e.g. market risk, credit risk and liquidity risk.

The board of directors policies for reducing each of the risks are discussed below.

The company does not use derivative financial instruments based on future speculations.

28.1 Market risk

(a) Foreign currency risk

The company mainly operates in the GCC, other Middle Eastern countries, the United States and other countries, and thus is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar and Euro. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements
For the year ended 31 December 2014

28. Risk management objectives and policies (continued)
28.1 Market risk (continued)
(a) Foreign currency risk (continued)

The group had the following significant exposures denominated in foreign currencies, and translated into Kuwaiti Dinar with the closing rates at the end of the year:

	31 Dec. 2014 KD	31 Dec. 2013 KD
United State Dollar	22,620,688	19,931,568
Euro	77,959	80,369
GBP	1,935,087	790,453
UAE Dirham	22,145,715	16,304,823

The foreign currency sensitivity is determined based on 2% (2013: 2%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened against the foreign currencies, assuming the above sensitivity, then this would have the following impact on the results for the year:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Result for the year	455,383	343,512
Equity	590,327	408,057

If the Kuwaiti Dinar had weakened against the foreign currencies, assuming the above sensitivity, then the impact on the group's results for the year would have been equally the reverse as disclosed above.

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk.

(b) Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group has no significant interest bearing assets other than fixed deposits. The group is exposed to interest rate risk with respect to its borrowings, whether they are at fixed or floating interest rate.. The risk is managed by the group by maintaining an appropriate mix between fixed and floating rate borrowings. The board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Provisions are monitored on a regular basis and hedging strategies used to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the result for the year and equity to a reasonably possible change in interest rates of +1% and –1% (2011: +1% and –1%) retrospectively from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition and rates.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

28. Risk management objectives and policies (continued)

28.1 Market risk (continued)

(b) Interest rate risk (continued)

The calculations are based on the group's financial instruments held at the end of the year, while all other variables are held constant. There is no impact on the group's equity.

	31 Dec. 2014 +1%	31 Dec. 2013 +1%
	KD	KD
Result for the year	(681,555)	(412,683)

There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

(c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as at fair value through statement of income or as available for sale.

To manage its price risk arising from investments in securities, the group diversifies its investment portfolios. Diversification of the portfolio is done in accordance with the limits set by the company.

The below table shows the sensitivity analysis for the group with regard to its investment securities, and it is determined based on possible price risks at the reporting date. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If prices of financial securities had been 5% (2013: 5%) higher, the effect on the result for the year and equity would have been as follows.

	Result for the year		Equity	
	31 Dec. 2014 KD	31 Dec. 2013 KD	31 Dec. 2014 KD	31 Dec. 2013 KD
Investments at fair value through statement of income	5,345	3,630	-	-
Available for sale investments	-	-	2,651,689	2,445,453
	5,345	3,630	2,651,689	2,445,453

If prices of financial securities had been 5% (2013: 5%) lower, the effect on the results for the year and equity would have been equally the reverse as disclosed above.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

28. Risk management objectives and policies (continued)

28.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group credit policy regarding exposure to credit risk requires monitoring these risks on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of clients in specific locations or businesses through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognized at the consolidated financial position date, as summarized below:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Available for sale investments	53,033,787	48,909,057
Due from related parties	9,341,188	7,768,453
Accounts receivables and other debit balances	4,080,867	2,453,479
Investments at fair value through statement of income	106,900	72,591
Term deposits	1,309,197	4,998,337
Cash and bank balances	7,309,351	1,412,361
	75,181,290	65,614,278

28.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, and it manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summaries the maturity profile of the group's liabilities. The maturities of liabilities have been determined on the basis of the remaining period from the consolidated financial position date to the contractual maturity date.

Maturity profile of liabilities at 31 December 2014 and 2013:

	1 - 3 months KD	3 - 12 months KD	1-5 years KD	Over 5 years KD	Total KD
31 December 2014					
Liabilities					
Borrowings	5,625,000	625,000	47,572,200	12,937,500	66,759,700
Term loans	-	582,000	3,940,695	647,037	5,169,732
Lease contracts commitment	4,812,000	2,297,438	5,129,538	-	12,238,976
Other provisions	-	739,358	-	-	739,358
Due to related parties	-	156,151	-	-	156,151
Accounts payable and other credit balances	-	15,685,397	-	-	15,685,397
	10,437,000	20,085,344	56,642,433	13,584,537	100,749,314

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

28. Risk management objectives and policies (continued)

28.3 Liquidity risk (continued)

	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	Total
	KD	KD	KD	KD	KD
31 December 2013					
Liabilities					
Borrowings	-	11,871,666	26,187,500	-	38,059,166
Term loans	-	611,100	4,570,650	-	5,181,750
Lease contracts commitment	-	4,594,875	5,664,206	-	10,259,081
Other provisions	-	471,300	-	-	471,300
Due to related parties	-	86,312	-	-	86,312
Accounts payable and other credit balances	-	9,083,750	-	-	9,083,750
	-	26,719,003	36,422,356	-	63,141,359

28.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2014 and 2013 are as follows:

	Kuwait	Other Middle Eastern Countries	United States, Europe and other countries	Total
	KD	KD	KD	KD
As of 31 December 2014				
Available for sale investments	29,755,506	4,720,865	18,557,416	53,033,787
Due from related parties	4,771,914	4,569,274	-	9,341,188
Accounts receivable and other debit balances	3,779,488	-	301,379	4,080,867
Investments at fair value through statement of income	35,516	-	71,384	106,900
Term deposits	-	98,337	1,210,860	1,309,197
Cash and bank balances	4,719,932	297,005	2,292,414	7,309,351
	43,062,356	9,685,481	22,433,453	75,181,290
As of 31 December 2013				
Available for sale investments	35,605,474	666,883	12,636,700	48,909,057
Due from related parties	3,513,653	4,254,800	-	7,768,453
Accounts receivable and other debit balances	2,105,040	-	348,439	2,453,479
Investments at fair value through statement of income	-	-	72,591	72,591
Term deposits	4,900,000	98,337	-	4,998,337
Cash and bank balances	831,858	64,616	515,887	1,412,361
	46,956,025	5,084,636	13,573,617	65,614,278

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

29. Fair value measurement

29.1 Fair value hierarchy

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

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

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Financial assets:		
Loans and receivables at amortized cost:		
Due from related parties	**9,341,188**	7,768,453
Accounts receivable and other debit balances	**4,080,867**	2,453,479
Term deposits	**1,309,197**	4,998,337
Cash and banks balances	**7,309,351**	1,412,361
Investments at fair value through statement of income:		
Investments at fair value through statement of income	**106,900**	72,591
Available for sale investments:		
Available for sale investments – at fair value	**52,163,766**	47,813,169
Available for sale investments – at cost	**870,021**	1,095,888
	75,181,290	65,614,278
Financial liabilities:		
Financial liabilities at amortized cost		
Borrowings	**64,492,500**	36,333,333
Term loans	**4,972,174**	4,935,000
Lease contracts commitment	**12,238,976**	10,259,081
Provision for employees' end of service indemnity	**792,557**	583,970
Due to related parties	**156,151**	86,312
Accounts payable and other liabilities	**14,544,442**	8,708,735
	97,196,800	60,906,431

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortised cost, approximate their fair values.

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

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

29. Fair value measurement

29.1 Fair value hierarchy (continued)

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2014

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through statement of income:				
Foreign quoted securities	106,900	-	-	106,900
Available for sale investments:				
Local quoted securities	19,682,943	-	-	19,682,943
Local unquoted securities	-	-	9,836,291	9,836,291
Foreign unquoted securities	-	-	22,528,514	22,528,514
Managed funds	-	116,018	-	116,018
	19,789,843	116,018	32,364,805	52,270,666
Non financial assets				
Investment properties	-	-	142,888,171	142,888,171
	-	-	142,888,171	142,888,171

31 December 2013

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through statement of income:				
Foreign quoted securities	72,591	-	-	72,591
Available for sale investments:				
Local quoted securities	28,629,921	-	-	28,629,921
Local unquoted securities	-	-	6,460,874	6,460,874
Foreign unquoted securities	-	-	12,484,554	12,484,554
Managed funds	-	237,820	-	237,820
	28,702,512	237,820	18,945,428	47,885,760
Non financial assets				
Investment properties	-	-	112,781,965	112,781,965
	-	-	112,781,965	112,781,965

There have been no transfers between levels during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

29. Fair value measurement (continued)

29.1 Fair value hierarchy (continued)

Level 3 fair value measurement

The group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Available for sale investments		
Unquoted securities		
Opening Balance	**18,945,428**	16,423,760
Additions	**11,411,976**	3,140,405
Disposals	**(644,910)**	(168,033)
Change in Fair Value	**2,652,311**	(449,552)
Impairment in value	**-**	(1,152)
Closing balance	**32,364,805**	18,945,428

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

For financial instruments carried at mortised cost, fair values are not materially different from their carrying values and is used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counter parties.

The impact on consolidated statement of income and consolidated statement of comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

30. Capital risk management

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and other variables including risks related to the group assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

Notes to the consolidated financial statements

For the year ended 31 December 2014

30. Capital risk management (continued)

The capital structure of the group consists of the following:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Borrowing (note 21)	**64,492,500**	36,333,333
Term loans (note 22)	**4,972,174**	4,935,000
Less:		
Term deposits (note 16)	**(1,309,197)**	(4,998,337)
Cash and bank balances (note 17)	**(7,309,351)**	(1,412,361)
Net debt	**60,846,126**	34,857,635
Equity	**126,974,777**	124,572,592
Net debt to equity	**47.9%**	28.0%

31. Contingent liabilities

Contingent liabilities and capital commitments at the consolidated financial position date are as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Issued letters of guarantee	**7,253,294**	7,253,294
Capital commitments for the maintenance, development and operating of properties	**5,583,669**	6,694,990
	12,836,963	13,948,284

During the year ended 31 December 2013, the parent company won a contract for the project of the management, development, operation and maintenance of Souk Al-Kabeer and Souk Al-Kuwait real estate properties for a period of ten years. The final agreements have been signed on 1 October 2013 and the parent company issued letters of guarantee amounting to KD7,049,120 according to those agreements (note 23).

According to the above mentioned agreements, The parent company has committed to maintain, develop and operate the said properties by spending KD5,583,669 (2013: KD6,694,990) to be paid within a period of three years from the date of the final agreements.

32. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation of the consolidated financial statements. This reclassification did not affect the previously reported results, total assets and equity.