AQARAT
عقارات

ANNUAL REPORT

2018

YOTEL HOTEL
San Francisco - USA

AQARAT
عقارات

شركــة عقـــارات الكـــويت ش.م.ك.ع
Kuwait Real Estate Company K.P.S.C.

Established in 1972
Authrized Capital KD 90,671,294 K.D

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H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
AMIR OF KUWAIT

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE OF KUWAIT

H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
PRIME MINISTER OF KUWAIT

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Board Members

Board Members

Ibrahim Saleh Al Therban
Chairman

Talal Jassim Al Bahar
Vice Chairman and CEO

Ahmad Faisal Al Qatami
Board Member

Hamed Mohammad Al Aiban
Board Member

Marzouq Jassim Al Bahar
Board Member

Mohamed Issam Al Bahar
Board Member

Mishari Ahmed Al Ajeel
Board Member

Mishari Abdullah Al Dakhil
Board Member

Executive Management

Kuwait City
Sky Night View

Executive Management

Talal Jassim Al Bahar
Vice Chairman and CEO

Eng. Naser Mohammed Al-Bader
Vice President
Facilities Management

Fahad Husam Al-Shamlan
Vice President
Investments & Acquisitions

Eng. Abdul Aziz Abdul Razzak Al-Meajel
Vice President
Real Estate Development

Bader Jassim Al Hajeri
Vice President
Property Management

Mohammed Nouri Al-Hamad
Manager
Human Resources and Administration

Maher S. Khalaf
Assistant Vice President
Finance

Chairman's Message

Ibrahim S. Al-Therban
Chairman

Honorable Shareholders,

Greetings to All,

On my behalf and on the behalf of my colleagues' the members of the Board of Directors, I am pleased to present to you the annual financial report of the company for the fiscal year ended on 31 December , 2018, which highlights the companies important achievements and financial statements.

Financial Performance

As a result of the management's efforts to achieve its desired objectives in accordance with the company's strategy, I'm pleased to announce that the company achieved the profit of 6.7 million Kuwaiti Dinars (equivalent to 7.54 fils per share) compared to profit of KD 2.2 million in 2017 (equivalent to 2.46 fils per share). Rental income has increased to 2.3% reaching KD 17.5 million compared to KD 17.1 million in 2017. The company has recorded a decrease in operating expenses from KD 7.5 million in 2018 to KD 7.3 million in 2017.

In addition, the company's assets reached KD 270.9 million in comparison to KD 249.9 million in 2017. This increase is due to the company's investments in real estate portfolio. In addition, the shareholders equity amounted to KD 132.2 million in 2018 compared to KD 133.3 million in 2017 reaching a book value of 146 fils per share.

Company's Performance

At the Local level

In March 2018, Kuwait Real Estate Company announced that it would like to acquire the non-cash option on the shares of International Resorts Company K.S.P.C, which owns and manages profitable real estate assets. The acquisition is expected to be complete during in the first quarter of 2019; the financial impact of the acquisition will be seen in 2019.

During this year, construction has begun for a residential tower located in AlRiggae. The residential tower, expected to be completed in the fourth quarter of 2019, will be included within the total income-producing real estate asset portfolio. The final designs for a four-star hotel and a commercial complex in fourth ring road in Al Riggae is completed. Construction is expected to begin during the third quarter of 2019. The company is currently studying the redevelopment of some of its other properties in Kuwait.

Chairman's Message

At the Arab and Gulf level
In the end of 2018, the company signed an initial contract to purchase five plots of land in Dubai to begin construction during the second quarter of this year, strengthening its income-producing real estate portfolio. The company also own several real estate assets in UAE, Bahrain, and Lebanon and continuously examines the appropriate opportunities in terms of exit or development of these assets.

At International level
In 2018, the company began selling residential units in "Yotel Miami" and the construction of Yotel San Francisco Hotel was completed by the end of 2018. Based on the increase of prices, we are looking to sell these assets.

Plans for 2019
The company will continue implementing the plan by the Board of Directors aimed at expanding investments in income producing and development assets. KREC also plans to explore real estate investment opportunities inside and outside Kuwait with attractive returns and benefits to shareholders and the company.

In Conclusion,
I would like to take this opportunity to express my sincere and profound recognition and appreciation to the shareholders, the Board of Directors, and employees for their continuous support and recognition to develop and guide the company towards a more prosperous future.

Vision and Mission

Vision

To become a regional real estate investment and development company diversified through geographic and sectorial differentiation, in order to serve both stakeholders and clients while increasing investment returns.

Mission Statement

Aqarat strives to consistently deliver superior risk-adjusted investment returns by combining our collective industry expertise and relationships with investment discipline, core values and a commitment to excellence.

Our mission is to provide leadership that results in successful real estate ventures, prosperous commercial properties, thriving residential communities, and to create a rewarding work environment for our employees. We aim to create long-term sustainable value for our investors through strategic asset growth, increased profitability and the capture of value added opportunities.

Our stakeholders include our employees, owners, business partners, residents, vendors and suppliers, as well as government agencies, regulators and lenders. The interests, goals, and objectives of all stakeholders are important to the success of our company, both individually and collectively.

Aqarat conducts its affairs with integrity, vision, and consideration. We listen to the goals of our stakeholders and align our resources to surpass these goals. We are committed to developing employees and creating teams that surpass industry standards by creating an environment that empowers our team and rewards innovation.

We are selective and purposeful when evaluating new business opportunities.

Core Values

Excellence – We take all of the necessary steps to provide the highest level of service to our stakeholders. Excellence is our goal, providing exceptional service and thorough execution from start to finish in every transaction.

Integrity – Integrity is the foundation of Aqarat's corporate value structure. We rely on honesty and virtuous ethics in the everyday workings of the company. We live up to our commitments, responsibilities, and promises. We focus on honest communication and building long-term relationships in which trust is essential.

Innovation: Aqarat recognizes and embraces the latest design methodology and technology into every aspect of the company to increase productivity and provide increased rewards for our stakeholders. Stakeholders of the company can feel secure in knowing that we continuously research and implement cutting-edge strategies.

History: We honor the company's storied past as a pioneer in the local real estate market by constantly striving to adhere to the highest of standards set forth by our predecessors. We recognize the innovation that led to the company's growth and standing as one of the premier real estate companies in the region and strive to improve upon it in order to not merely maintain, but to grow the company's legacy.

Vision Mission

Souk Al-Kabeer
Kuwait City

Talent – We recognize the exceptional skills of all of our team members and act to cultivate and encourage them. We invest in team members, making sure each one has the opportunity to develop the tools they need to succeed.

Cooperation - We believe that everyone we work with will be more successful in a collaborative environment and strive to develop a real sense of teamwork and partnership in our relationships with all of our stakeholders

Community - We envision ourselves as an integral part of our community both locally in Kuwait as well as regionally in the MENA region. We participate in volunteer activities and pro-bono community improvement efforts at the company level and we encourage all of our team members to volunteer their time and energy to causes close to their hearts.

General Governance Report

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About the formation of the Board of Directors

*	Name	Description of the member	Qualifications and expertise		Date of election or appointment
1	**Ibrahim Saleh Al-Therban**	(Chairman of the Board) Non-executive member	Bachelor of Commerce	More than 43 years of experience in investment, finance and economy.	30/05/2018
2	**Talal Jassim Al-Bahar**	(Deputy Chairman) and Chief Executive Director Executive member	Bachelor of Business Administration	More than 14 years of experience in the field of investment and real estate development.	30/05/2018
3	**Marzouq Jassim Al-Bahar**	Non-executive member	Bachelor of Business Studies	More than 7 years of experience in marketing, development and business administration.	30/05/2018
4	**Ahmad Faisal Al-Qatami**	Independent member	Bachelor of Business Administration	More than 17 years of experience in financing and banking.	30/05/2018
5	**Mshari Abdullah Al-Dakhil**	Independent member	Bachelor of Business Management	More than 27 years of experience in finance and commercial laws.	30/05/2018
6	**Mshari Ahmad Al-Ajeel**	Non-executive member	Bachelor of Finance and Financial Institutions	More than 10 years of experience in investment, and assets and portfolio management.	30/05/2018
7	**Mohammad Issam Al-Bahar**	Non-executive member	Bachelor of Business Administration	More than 8 years of experience in management and development.	30/05/2018
8	**Hamed Mohammad Al-Aiban**	Non-executive member	Bachelor of Business Administration	More than 33 years of experience in the financial sector, investments, banking and management.	30/05/2018
*	Amal Mohammad Al-Ashab	Secretary	Bachelor of financial and banking sciences	More than 25 years of experience in secretarial work with the executive management	30/05/2018

General Governance Report

Meetings held by the Board during 2018:

Name	Meeting No. 1 held on 13/03/2018	Meeting No. 2 held on 28/03/2018	Meeting No. 3 held on 15/05/2018	Meeting No. 4 held on 30/05/2018	Meeting No. 5 held on 17/07/2018	Meeting No. 6 held on 12/08/2018	Meeting No. 7 held on 08/11/2018	Number of meetings
Ibrahim Saleh Al-Therban Chairman of the Board - Non-executive member			√	√	√	√	√	5
Talal Jassim Al-Bahar Vice Chairman & CEO - Executive Member	√	√	√	√	√	√	√	7
Marzouq Jassim Al-Bahar Non-executive member	√	√	√	√	√	√	√	7
Hamed Mohammad Al-Aiban Non-executive member	√	√	√	√		√	√	6
Ahmad Faisal Al-Qatami Independent member	√	√	√	√	√	√	√	7
Mshari Abdullah Al Dakhil independen member	√	√	√	√	√	√	√	7
Mohammad Issam Al-Bahar Non-executive member	√	√	√	√		√	√	6
Mshari Ahmad Al-Ajeel Non-executive member	√	√	√	√	√	√	√	7
Amal Mohammad Al-Ashab Secretary	√	√	√	√	√	√	√	7

- Mr. Talal Jassim Al-Bahar was appointed Chief Executive Officer of the Company as from 1 April 2018.
- The Board of Directors was re-formed on 30 May 2018 for the three following years (2018-2021).
- Mrs. Amal Mohammad Al-Ashab was re-appointed Secretary of the Board for the same period on 30 May 2018.
- The committees derived from the Board of Directors were re-formed for the same period of the Board of Directors.

General Governance Report

- Implementation of the requirements of registration and coordination and keeping minutes of meetings of the Board of Directors of the company

The Secretary of the Board shall establish a special register for the minutes of the company's Board of Directors meetings, and special registers for the minutes of the Board's committee meetings. Each record includes information of the agenda, date, place, and the start and closing hours of each meeting. Each meeting is serially saved per each year.

Members of the Board and Board Committees are provided with the agenda of each meeting supported by the relevant documents within a sufficient time to allow members of the Board to examine the agenda items. Minutes of the meeting are signed by all the attending members.
The Secretary coordinates and distributes the information among members of the Board and other stakeholders.

- About the Company's method of defining the policy of the tasks, responsibilities and duties of each of the members of the Board of Directors and Executive Management, as well as the powers and authorities delegated to the Executive Management.

Policy of the Board of Directors:

The Board of Directors shall have all the powers and authorities necessary to manage the company without exceeding the terms of reference of the General Assembly. The Board of Directors shall remain responsible for all of the committees deriving therefrom, including the Board's responsibility for preparing the annual report which is read to the annual General Assembly of the Company stating the information and data of the Company's activity, financial position, business results and compliance with the governance rules. The Board exercises its tasks with responsibility, good faith, seriousness and care. Decisions of the Board are based on adequate information from the Executive Management.

Tasks and responsibilities of the Board include the following:

1. Ensuring that the Executive Management provides current and potential shareholders and the investment community with all the information relevant to the Company's business, activities and most significant developments, as well as ensuring that the annual report and financial reports published and delivered to the shareholders reflect the current situations of the Company.
2. Issuing annual estimated budgets, approving quarterly and annual financial statements, and supervising the Company's major capital expenditure, as well as assets ownership and disposal.
3. Establishing effective communication channels to enable the Company's shareholders to periodically and constantly access the Company's different activities and any other essential developments therein.
4. Ensuring that all policies and regulations approved by the Company are implemented with utmost transparency and clarity, thus, enabling decision making, achieving governance principles and separating between powers and authorities of the Board of Directors and Executive Management through the following:
   a. Approving and developing internal laws and regulations related to the company's activities and determining the tasks, specialties, obligations and responsibilities among different regulatory levels.
   b. Ensuring the company's commitment to policies and procedures as a proof of the company's respect to the regulations and internal laws in force.
   c. Approving work delegation and implementation policy with regard to the Executive Management.
   d. Determining the authorities delegated to the Executive Management, the decision-making process, and delegation term. The Board shall determine the topics that only it has the authority to decide thereon, and the Executive Management shall submit regular reports about its implementation of the delegated authorities.

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5. Monitoring and supervising the performance of the Executive Management members and ensuring that they are accomplishing all assigned roles.
6. Issuing the remuneration regulations granted to employees, such as fixed remunerations, remunerations related to performance and long-term risks and remunerations as shares.
7. Setting a mechanism to regulate dealings with Related Parties to avoid conflict of interest.
8. Recommending appointment of independent auditors.
9. Regularly ensuring effectiveness and sufficiency of the internal control systems in force in the Company and its subsidiaries.

Policies and Procedures Regulating the Executive Management's work:

The Executive Management under the supervision and direction of the company's CEO carries out the activities of the company. The policies and procedures regulating the work of all the executive departments and groups within the company were approved. Every guide sets in detail all the tasks that each executive department performs according to the strategic goals approved by the Board and the internal laws of the company. The Executive Management aims to achieve balance in the relations between the company and its shareholders, employees, customers and other stakeholders, and to ensure that the company works within the company's objectives by using its resources appropriately to meet its objectives in line with the company's policy and strategy. The CEO and other members of the Executive Management are accountable to the Board for the Company's practices, activities and business. The overall responsibilities and duties of the Executive Management include achievement of the objectives, supervision of the Company's daily activities, participation in strategic planning, and preparation of budgets, financial reports and other.

Major achievements of the Board of Directors during the year:

The Board of Directors was keen to follow up the implementation of the strategic plans and objectives that it has developed, and to constantly communicate with the Executive Management in order to achieve these strategies. The Board of Directors has also given great importance to all the requirements of the governance rules, not only through implementing the required procedures, but also through making these standards a working strategy within the company. During the past year, several achievements were performed by the Board in those areas such as the following:

1. Approving the Annual Reports on Corporate Governance - Remunerations - Audit Committee - Social Responsibility of Kuwait Real Estate Company (AQARAT).
2. Reviewing the financial results of the Company regularly and comparing these results with the financial statements issued for different periods.
3. Following up on the implementation of the Company's activities with the Executive Management and holding periodic meetings.
4. Following up on the results of the activities of the committees derived from the Board through reviewing and discussing the regular reports issued by such committees.
5. Holding regular meetings with those responsible for the internal audit departments, following up the results of their work, and discussing the remarks of regulators.
6. Approving contracting with an independent audit office to review and evaluate the Company's internal audit performance.
7. Attending training workshops.

General Governance Report

- **About implementing the Board of Directors' requirements for the formation of independent specialized committees**

Risks Management Committee	Date of Formation	Members of the Committee		Number of meetings during 2018
	30 May 2018	Ahmad Faisal Al-Qatami	Chairman	4
		Marzouq Jassim Al-Bahar	Non-executive member	
		Mohammad Issam Al-Bahar	Non-executive member	
		Amal Mohammad Al-Ashab	Secretary	

Tasks of the Committee:

1. Preparing and reviewing risk management strategies and policies before the Board of Directors approves them and ensuring their consistency with the size of the company's activities.
2. Review the adequacy and effectiveness of the Company's internal control systems, including the strategies, policies and procedures on the good practices for the management and control of various risks, and verifying the implementation of those policies and strategies.
3. Ensure that adequate risk management resources and systems are available, reviewing the organizational structure of risk management and submitting recommendations before it is approved by the Board of Directors, ensuring that management personnel have a full understanding of the risks surrounding the company and ensuring the independence of risk management personnel from the operational activities.
4. Assisting the Board of Directors in identifying and evaluating the acceptable level of risk at the Company, and evaluating the systems and mechanisms of identifying, measuring and monitoring the various types of risks that the company may be exposed to.
5. Examining and reviewing the Company's risk assessment reports and the procedures taken to limit or meet these risks within the risk ratios acceptable and approved by the Company against the expected benefits.
6. Reviewing the audit committee's remarks that may affect the Company's risk management.
7. Reviewing and preliminary approving the risk management policies and procedures.
8. Performing any other responsibilities entrusted to the Committee by the Board of Directors in accordance with the approved system of powers.

General Governance Report

Nominations and Remunerations Committee	Date of Formation	Members of the Committee		Number of meetings during 2018
	30 May 2018	Ibrahim Saleh Al-Therban	Chairman	1
		Mshari Abdullah Al-Dakhil	Independent member	
		Mohammad Issam Al-Bahar	Non-executive member	
		Amal Mohammad Al-Ashab	Secretary	

Tasks and accomplishments of the Nominations and Remunerations Committee

1. Establishing clear policies for the remuneration of the members of the Board of Directors, as well as defining and implementing the policies and standards related to performance measurement.
2. Establishing and developing the Board of Directors' allowances and remunerations policy in accordance with the applicable laws, and submitting recommendations to the Board regarding the proposed remunerations subject to the approval of the Ordinary Assembly.
3. Determining the different segments of remunerations to be granted to the employees, such as the fixed remunerations, performance related remunerations, remunerations as shares and end of service remunerations.
4. Supervising the establishment of the policy of granting remunerations, promotions, benefits, increases, incentives and salaries to the executive management and employees.
5. Verifying that the remunerations are granted in accordance with the company's policy, periodically reviewing these policies and evaluating their effectiveness in achieving the desired objectives of attracting the human cadres and maintaining the competent staff.
6. Establishing a detailed annual report on all the remunerations awarded to members of the Board of Directors and Executive Management, provided that this report shall be presented to the General Assembly for approval.
7. Preliminary approving the plan for the rotation and replacement of executive positions and submitting the plan to the Board of Directors for final approval.
8. Developing job descriptions for executive, non-executive and independent board members.
9. Recommending the nomination or re-nomination of independent members by the General Assembly, and ensuring independence of the independent board member is not denied.
10. Submitting recommendations to the Board of Directors to appoint members of the Executive Management and vacant leadership positions in accordance with the approved policies and standards, in a manner that does not contradict with the instructions and regulations.
11. Ensure the nomination of the most efficient, experienced, capable and skilled person to exercise the tasks assigned to any vacancy in accordance with the best standards.
12. Supervising the establishment of the training plan for all employees of the company and monitoring its implementation.
13. Adopting the structure of grades and salaries of the company.
14. Performing any other responsibilities entrusted to the Committee by the Board of Directors in accordance with the approved system of powers.

General Governance Report

Audit Committee	Date of Formation	Members of the Committee		Number of meetings during 2018
	30 May 2018	Marzouq Jasem Al-Bahar	Chairman	4
		Ahmad Faisal Al-Qatami	Independent member	
		Mshari Abdullah Al-Dakhil	Independent member	
		Amal Mohammad Al-Ashab	Secretary	

Tasks and accomplishments of the audit committee

1. Reviewing the quarterly and annual financial statements and report of the external auditor and preliminary approving them before submitting the same to the Board of Directors for final approval, in order to ensure the fairness and transparency of the financial reports.
2. Ensuring the adequacy and comprehensiveness of the scope of work of the external auditor, confirming the extent of its independence and neutrality from the company, and limiting the factors that may impair its independence.
3. Examining the remarks of the external auditor on the financial statements of the company and following up on what has been done.
4. Examining the accounting principles and policies of the company and examining any changes that may affect the financial position of the company.
5. Supervising the internal audit activities and reviewing the scope and periodicity of audit work, as well as reviewing and approving the annual plan of internal audit.
6. Reviewing the internal audit reports of the company's various departments, discussing the remarks received thereon, taking the corrective decisions, and identifying the persons implementing such decisions and the expected time period for implementation.
7. Reviewing the adequacy and effectiveness of the company's internal control regulations including the strategies, policies and procedures related to sound risk management and control practices, and verifying the implementation of these policies and strategies.
8. Following-up the implementation of the agreed correction procedures in accordance with a specific timetable.
9. Reviewing the reports of the regulatory bodies and ensuring that the necessary procedures have been taken.
10. Reviewing and preliminary approving the policy and procedure guidelines of the Internal Audit Department.
11. Ensuring the company's compliance with relevant laws and regulations.
12. Nominating, appointing, transferring, removing or replacing the internal auditor, determining their fees, and verifying their effectiveness in the execution of the work.
13. Recommending to the Board of Directors the appointment, reappointment or change of the external auditor and the determination of their fees.
14. Reviewing transactions and deals with relevant parties and making the appropriate recommendations thereon to the Board of Directors.
15. Holding periodic meetings independently with the external auditor, and holding at least four meetings with the internal auditor, as well as when needed at the request of the committee.

General Governance Report

- **About the method of applying the requirements that allow the board members to obtain timely and accurate information and data**

The Secretary of the Board shall establish a special register for the minutes of the company's Board of Directors meetings, and special registers for the minutes of the Board's committee meetings. Each record includes information of the agenda, date, place, and the start and closing hours of each meeting. Each meeting is serially saved per each year.

Members of the Board and Board Committees are provided with the agenda of each meeting supported by the relevant documents within a sufficient time to allow members of the Board to examine the agenda items. All the attending members sign minutes of the meeting.

The Secretary coordinates and distributes the information among members of the Board and other stakeholders.

- **About implementing the requirements of forming the Nominations and Remunerations Committee**

The Nominations and Remunerations Committee was formed on 30 May 2018, consisting of three members, including an independent member, Chairman of the Committee, and a non-executive member. Kuwait Real Estate Company (AQARAT) has established a clear policy regarding granting remunerations to the Chairman and members of the Board of Directors and preparing a detailed report on the amounts, benefits or privileges granted to them. The Committee meets regularly at least once a year and when necessary.

- **Report of the remunerations granted to members of the Board of Directors and Executive Management**

Remunerations, benefits and privileges granted to members of the Board of Directors and Executive Management for the year 2018:

Type of the remuneration	Members of the Board of Directors	Executive Management
Fixed remunerations (including wages and main salaries)	0	383,567.112
Variable remunerations	40,000	236,304
End of service remunerations	0	55,186.552

During the year, the Company did not record any deviation from the policy adopted in granting remunerations and benefits.

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Declaration of the Authenticity and Integrity of Financial Reports:

The Executive Management shall submit submitted undertakings, in writing, to the Board of Directors of Kuwait Real Estate Company (AQARAT) confirming the authenticity and integrity of the financial reports, and that they cover all the financial aspects of data and operational results. The financial reports shall be prepared in accordance with International Financial Reporting Standards. Additionally, the Board of Directors shall provide the shareholders of the Company with the undertaking to the authenticity and integrity of the financial statements and reports related to the activity of the Company.

Declaration of the Chief Executive Officer
And Chief Financial Officer
To the Integrity and fairness of financial statements

We, the Vice Chairman and Chief Executive Officer and AVP - Finance, hereby declare to the best of our knowledge that the consolidated financial statements of Kuwait Real Estate Company KSC which consist of:

- The consolidated statement of the financial position as at 31 December 2018
- The consolidated statement of income
- The consolidated statement of changes in equity
- The consolidated statement of cash flows

For the year then ended, and the remarks to the consolidated financial statements, including the summary of the significant accounting policies, fairly reflect, in all material respects, the consolidated financial position as at 31 December 2018 and the Company's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards for the preparation of financial reports.

Talal Jassim Al-Bahar
Vice Chairman and Chief Executive Officer

Maher Samir Khalaf
AVP - Finance

General Governance Report

Declaration (Integrity and Fairness of the Financial Statements)

We, Chairman of and Members of the Board of Directors of Kuwait Real Estate Company (AQARAT), declare the accuracy and integrity of the financial statements provided to the external auditor and that the Company's financial statements have been presented properly and fairly and in accordance with international accounting standards applicable in the State of Kuwait and approved by the Authority. We also declare that these statements reflect the financial position of the Company as of 31 December 2018, based on information and reports received from the Executive Management and the Auditor and as a result of the due diligence performed to verify the integrity and accuracy of these reports.

Name of the Member	Position	Signature
Ibrahim Saleh Al-Therban	Chairman of the Board	
Talal Jassim Al-Bahar	Deputy Chairman of the Board and Chief Executive Officer	
Marzouq Jasem Al-Bahar	Member of the Board of Directors	
Mohammad Issam Al-Bahar	Member of the Board of Directors	
Hamed Mohammad Al-Aiban	Member of the Board of Directors	
Ahmad Faisal Al-Qatami	Member of the Board of Directors	
Mshari Abdullah Al-Dakhil	Member of the Board of Directors	
Mshari Ahmad Al-Ajeel	Member of the Board of Directors	

General Governance Report

- **About implementing the requirements of forming the Audit Committee**

The Audit Committee was formed on 30 May 2018. It consists of three members, including two independent members. The Chairman of the Board of Directors or an executive member may not be members in this committee. The Committee is fully independent and has human cadres with specialized expertise in the accounting and financial fields. The committee holds meetings regularly at least four times a year quarterly. It records its meetings minutes and holds periodic meetings with external auditors, with the internal auditor at least four times a year as well as when necessary.

- **Emphasizing the independence and neutrality of the external auditor.**

The auditor shall be nominated based on the recommendation of the Audit Committee submitted to the Board of Directors, provided that he shall be one of the auditors registered in the special register with the Authority. The auditor shall also be is independent of the company and its board of directors.

The auditor is allowed to discuss his views with the Audit Committee before submitting the annual accounts to the Board of Directors. He shall also attend the meetings of the General Assembly and presents the report prepared by him to the shareholders, explaining any obstacles or interventions that he faced.

- **Brief overview of implementing the requirements of forming the risk management committee**

Kuwait Real Estate Company (AQARAT) is aware of the importance of effective internal control systems to ensure the integrity of the financial statements and the efficiency of the company's business and to assess compliance with the regulatory controls. Therefore, the approved organizational structure of the Company has a risk management unit that measures, monitors and limits all kinds of risks facing the Company.

Risk managers are independent through their direct subordination to the Risk Committee. They also have significant authorities to carry out their duties without having financial powers that lead to conflicts with their supervisory role. The Risk Management Committee has the qualified human resources with professional competence and technical ability.

- **About Implementing the requirements of forming the Risk Management Committee**

The Risk Management Committee was formed on 30 May 2018. It consists of three members. The Chairman of the Committee is an independent member in addition to two non-executive members. The Chairman of the Board is not a member of the Committee. The Committee meets periodically at least four times a year and when necessary, and records the minutes of its meetings.

Internal Control Systems

The company relies on a set of control systems and regulatory rules covering all activities and departments of the company. These systems and rules maintain the integrity of the financial position of the Company, the accuracy of its data and the efficiency of its operations in various aspects. The organizational structure sets out the responsibilities and clearly determines the structural relations authorities. It also reflects the Company's strategy and investment structure. The Board of Directors has delegated the Company's Executive Management to conduct the Company's daily operations, under the chairman of the Chief Executive Officer through a written authorization of the financial and operational authorities. All the financial transactions that may not be delegated to the Executive Management or Chief Executive Officer and which require approval of the Board of Directors have been clarified.

The Company's internal control procedures include administrative, accounting control, and the internal control system of the Company. Such procedures are periodically applied, including the proper identification of powers and responsibilities, complete separation of tasks, non-conflict of interest, and double control and signature. The Company has contracted with an independent and approved audit firm (other than the external auditor) to conduct an evaluation and review of the internal control systems (Internal Control Report) and prepare a report on this manner. The report will be submitted to the Capital Markets Authority.

General Governance Report

- **About implementing the requirements of forming the internal audit unit**

The approved organizational structure of Kuwait Real Estate Company (AQARAT) has a fully independent internal audit unit. This unit reports to the Audit Committee and the Board of Directors. The Internal Audit Manager was appointed directly by the Board of Directors based on the recommendation of the Audit Committee. The Board has defined the tasks and responsibilities of the internal audit unit and approved its policies.

- **Charter of Professional Conduct and Moral Values Standards and Indicators**

The company has developed a charter that defines the standards and indicators of professional conduct to implement the Company's objectives according to these standards which contributes to the performance of tasks to the fullest. The professional conduct and orientation supports value-based decisions when providing customers with services and performing businesses. The company is proud not only because it does what is in the best interest of the business, but also the interest of interested audience. The culture of professional conduct and moral values is firmly established within the company, where everyone perform their functions through a systems based on moral values. Principles are an integral part of the company's strict commitment to maintain its reputation and the public's confidence where all employees, whether members of the Board of Directors, Executive Management or other employees, comply to all internal policies and regulations.

The Board of Directors of Kuwait Real Estate Company (AQARAT) has established and approved a policy to limit the conflicts of interests. Such policy includes the methods of addressing the cases of conflict of interests and dealing with the same.

The purpose of these policies is to help the company and each of its direct and indirect subsidiaries as well as members of the Board of Directors and Executive Management to determine the dissemination of corporate organizational values and methods of sound management of the actual and potential cases of the conflict interests. These policies apply to each of the Company's employees, suppliers, officers and Board members.

- **Implementing accurate and transparent presentation and disclosure mechanisms that define the aspects, areas and characteristics of disclosure**

The Company has complied with the regulating instructions to conduct the disclosure of material financial and non-financial information and the mechanism of announcing such information in a manner that meets the legal and ethical requirements of the Company. The Company was also keen to ensure the timely disclosure of material information related to the Company's business.

- **About implementing the requirements of the records of disclosures of the Board of Directors and Executive Management members**

The Company has established a special record for the disclosures of the Board of Directors and Executive Management members setting out all the information included in the disclosures received according to Module Ten of the Executive By-Laws issued by the Capital Markets Authority. The Company undertakes to amend this record based on the disclosures received there from. Any person may access this record during the official working hours.

- **Implementing the requirements of forming the investors affairs regulating unit**

Kuwait Real Estate Company (AQARAT) has established an investor affairs unit which is responsible for providing the necessary information and reports to the potential investors in the Company. The unit is fully independent in a way that enables it to provide the data in a timely and accurate manner.

General Governance Report

- **Developing an IT infrastructure, and relying heavily on this infrastructure in disclosure processes**

The company relies on the use of information technology to communicate with investors, shareholders and stakeholders. The company has created a special section for corporate governance on its website to offers the latest information that helps the shareholders and current and potential investors exercise their rights and evaluate the Company's performance.

- **Implementing the requirements of identifying and protecting the rights of shareholders in order to ensure equity and equality among all shareholders.**

In accordance with the Company's Guide to the Protection of the Rights of Stakeholders and Shareholders policies, all the shareholders of the Company have general and clear rights that include registering the ownership of shares in the Company's records, disposing of shares from registration, transfer and/or relocation of ownership, obtaining the share of the dividends, obtaining a share of the company's assets in case of liquidation, obtaining data and information about the company's activity and its operational and investment strategy on a timely manner, participating in the meetings of the General Assembly of shareholders and voting on its decisions, monitoring the performance of the company in general and the work of the Board of Directors in particular, and making the members of the Board of Directors or Executive Management accountable and filing of an action for liability - in case of failure to perform the tasks assigned to them.

- **About establishing a special register maintained by a clearing agency as one of the requirements of the constant follow up of the shareholders information**

The company maintains a special register with Kuwait Clearing Agency that includes the names, nationalities and places of domicile of the shareholders as well as the number of shares owned by each of them. In this register, any changes to the data included therein are noted according to the information received by the Company or Kuwait Clearing Agency.

- **Encouraging shareholders to participate and vote in the meetings of the Company's assemblies.**

The company invites the shareholders to its general assembly for participation and voting. The invitation shall state the place and the time of the meeting as it will also be published in the official gazette of the State of Kuwait. The shareholder may appoint another person to attend on his behalf under a special power of attorney or authorization prepared by the company. The shareholders will have the agenda of the General Assembly as well as the reports of the Board of Directors and the Controller of accounts and financial statements prior to the holding of the assembly.

- **The regulations and policies which guarantees the protection and realization of the stakeholders rights**

The company has developed policies and regulations that include rules and procedures that guarantee the protection and recognition of the rights of stakeholders and enable them to receive compensation in the event of violation of any of their rights, as stipulated the companies' governance rules. The policy that has been laid down sets out that the company needs to maintain positive business relations, and states the policies for reporting violations, receiving complaints and dealing therewith.

- **Encouraging stakeholders to participating in following up with the Company's various activities**

The company is keen to increase the contributions and participation of stakeholders in the company's activities, through publishing all the relevant information accurately and on a timely manner for the stakeholders. The company takes into consideration such parties upon making important decisions. The company provides stakeholders with access to information and data relevant to their activities so that they can be relied on in a timely and systematic manner.

General Governance Report

- **Laying out the mechanisms which allows members of the Board of Directors and Executive Management to constantly obtain training programs and courses**

The company has established in the professional and ethical behavior guide the principles on which the company's policy is based to create corporate values on the basis that the company's reputation is based on the behavior of the board members, executive management and employees. Everyone must play a role in maintaining the company's reputation by adhering to the highest ethical standards.
In order to develop the skills of members of the Board of Directors and the Executive Management, the Company contracted with more than one local consulting company to provide technical support for members of the Board of Directors and Executive Management in aspects related to governance, internal control, human resources management, legal affairs and other matters to ensure that they have a proper understanding of best practices in the company's business and operations.

- **Evaluating the performance of the Board of Directors in general, and the performance of each member of the Board of Directors and Executive Management**

The Company has developed systems and mechanisms to evaluate the performance of each member of the Board of Directors and Executive Management on a regular basis through a set of performance measurement indicators related to the achievement of the Company's strategic objectives. The objective performance indicators have been developed to evaluate the Board as a whole and the contribution of each member of the Board and each of its committees and to evaluate the performance of executive managers on an annual basis.

- **The efforts of the Board of Directors to create value for the employees of the company through the achievement of strategic objectives and improving performance rates.**

The Board of Directors creates values within the company by developing the mechanisms that helps to achieve the Company's strategic objectives and improve performance. This contributes to the creation of the institutional values for the employees and motivates them to work to maintain the financial integrity of the company. The Company also constantly develops the adopted internal integrated reporting systems in order to help members of the Board and Executive Management make decisions in a systematic and proper manner.

- **About developing a policy to ensure balance between each of the objectives of the company and objectives of the society.**

The company is keen to show the continuous commitment of its social responsibility through social behaviors which aim at achieving the sustainable development of the society in general and to the employees of the company in particular. This is achieved through initiatives to improve the lives of workers, their families and the community, and contributing to the reduction of unemployment in the society and to the optimal utilization of available resources. The company aims to strengthen the management concept by introducing a contribution to solving social and environmental problems within its operations and its relationships with stakeholders.

- **The adopted programs and mechanisms which help highlight the Company's efforts in the field of social work.**

Kuwait Real Estate Company (AQARAT) has donated in the field of community development to INJAZ Kuwait, which a non-governmental and non-profit association that aims at the development of the youth to work successfully through business management courses in the areas of entrepreneurship, business readiness and financial knowledge.
The company carries out Ramadan gatherings every year, attended by employees and executives. Additionally, the necessary training is provided to the employees to help develop their capabilities.

Annual Audit Committee Report
Ordinary General Assembly

13 March, 2019 - Kuwait

Committee Head Message

Esteemed Shareholders,

Greetings,

On behalf of myself and the committee members, I am pleased to present to you the report of the Audit Committee for the financial year ended on 31/12/2018 including the main duties and accomplishments of the Committee during the period.

The Committee has done its part and duties, and the result of such work is that the Committee as well as the Internal Audit Unit did not find any violations or penalties imposed as a result of these violations, and that no financial and non-financial sanctions were imposed on the Company.

Yours Sincerely,

Marzouq Jassim Al-Bahar
Head of the Committee

Introduction

Pursuant to the instructions of the Capital Markets Authority, Kuwait Real Estate Company ("Company") established the Audit Committee ("the Committee), which is a committee of the Board of Directors ("the Board") of the Company. In 2016, the Board approved the Committee's charter which outlines the method and standards of electing the committee members, the committee term, functions, responsibilities, authority and work rules. The committee is totally independent from the Company's executive management.

Pursuant to Module Fifteen (Corporate Governance) of the Executive Regulations issued by the Capital Markets Authority – Article 9-9 – Item No. 4, which provides that "the general assembly agenda should include a recital of the audit committee report", this report was prepared to be recited at the meeting of the Company's general assembly scheduled to be held during the second quarter of 2019.

The Company established an internal audit function which is independent and it reports directly to the Audit Committee.

All the members of the Committee enjoy education qualification and / or experience in the fields of finance and administration.

The Committee's secretariat takes minutes of all the committee's meetings setting forth the place, date and start and finish time of each meeting. Minutes are numbered serially for the year in which the meetings were held and are divided into parts and kept in a way that allows easy access to them. Being keen to provide all the required information and data in an accurate and timely manner to all Committee and / or Board members. In any case all the information and data that any member may need is available with the secretariat of the Committee.

Meetings of the Committee

The Audit Committee contain of the following members:

Name	Meeting No. 1 held on 28/03/2018	Meeting No. 2 held on 15/05/2018	Meeting No. 3 held on 12/08/2018	Meeting No. 4 held on 8/11/2018	Number of meetings
Marzouq Jassim Al-Bahar Non-executive member	√	√	√	√	4
Ahmad Faisal Al-Qatami Independent member	√	√	√	√	4
Mshari Abdullah Al Dakhil independen member	√	√	√	√	4

Opinion of the Committee on the Company's Internal Control Systems

In the Committee's opinion, the Company has in place internal monitoring and control systems that are both appropriate and satisfactory, covering all the Company's activities. They are designed to safeguard the Company's financial integrity, data accuracy and operational efficiency in every respect.
The organizational structure of the company takes the following into consideration:

1. Proper specification of powers and responsibilities.
2. Dual examination and control and dual signing of financial and accounting transactions subject to the table of authorities approved by the Board.
3. The principle of segregation of incompatible duties in all operations that are performed through the manual and automated systems in place. The main objectives of this principle are:

    a. To minimize the chances of concealing any transaction being performed.
    b. To reduce the ability of any one person to control all the stages of any one transaction.
    c. To curb any conflict of interest.
    d. To minimize the risks of fraud.

The Committee believes that the Company relies on a group of advanced information systems that effectively contribute to the internal control and provide accurate and transparent information. The Company applies a table of authorities that sets forth access limits and dealings with the information systems. In addition, limits have been set by both the Board of Directors and the Executive Management to reflect the decision taking powers and the authority to sign on behalf of the company is accurately specified. Management verifies that the powers vested in the employees are in line with their respective responsibilities by adopting an acceptable level of authority and segregation of duties. The powers and responsibilities of the employees are subject to review according to the requirements of the work environment and changes in the Company's organization structure.

The internal control procedures include operational, administrative and accounting controls and are consistently and continuously implemented. The Company's activities and performance are discussed at periodical meetings of the senior management and all the concerned officers in all departments are notified of all decisions. All the documents related to the internal control systems are kept and classified in order for them to be used in employee training, and in the examination and testing procedures designed to verify system efficiency and effectiveness. Every department keeps its own files and records in a safe place, and the authority to access them is given only to the concerned persons specifically in accordance with Management's instructions.

Achievements of the Committee

The Committee has, since its inception, sought to deepen the culture of compliance within the Company by ensuring the soundness and integrity of the Company's financial reports, and adequacy and effectiveness of the internal control systems in place. The following were the main achievements of the Committee during 2018:

1. Reviewing the interim and annual financial statement and recommending the approval thereof by the Board of Directors.
2. Meeting with the independent auditor, discussing the financial reports and statements, verifying that he has not met with any interference or obstacle from the Executive Management or the Board of Directors during his examination of the consolidated annual financial statements of the Company and its subsidiary companies.
3. Following up the performance and evaluating the independence of the independent auditor, and recommending the Board of Directors to re-appoint him.
4. Reviewing and discussing the independent audit office's report on the internal control systems in place at the Company and following up the remedial actions taken concerning the remarks and the performance of the recommendations made in prior reports.
5. Preparing the Audit Committee's annual report about the adequacy of the internal audit systems in place at the Company, including the Committee's recommendations in this regard. This report was presented to the Board of Directors.
6. Preparing the Audit Committee's report to be recited at the meeting of the general assembly.
7. Approving the annual internal audit plan.
8. Reviewing and discussing the internal audit reports (including the report on the evaluation of the internal control systems in place at the Company) and following up the remedial actions taken concerning the remarks and the performance of the recommendations made in those reports.

The Committee informed the Board of Directors with total transparency of the actions taken, results reached and decisions passed by the Committee. The Board periodically follows up the work of the Committee in order to ensure that the Committee performs the functions entrusted to it. The Committee is responsible for its work toward the Board of Directors. The Executive Management provided all members of the Committee with the information and data needed by the Committee, in an accurate and timely manner, thereby enabling the committee to perform its functions efficiently and effectively.

In compliance with the highest standards of transparency, the Company laid down a mechanism whereby, in the event of a conflict between the recommendations of the Audit Committee and the resolutions of the Board, particularly where the Board refuses to follow the Committee's recommendations with regard to the external auditors and / or the internal auditor, the Board should include in its governance report a statement that clearly sets forth those recommendations and the cause or causes for which the Board decided not to follow them. In 2018, there was no conflict between the Audit Committee's recommendations and the Board of Director's resolutions.

Market Overview

Yotel Hotel
USA

Market Overview

YOTEL MIAMI

At the end of the year , AQARAT, , along with joint venture partner Aria Development Group, a New York and Miami-based real estate investment and development company, celebrated the groundbreaking of YOTELPAD Miami. The mixed-use hotel and residential development will be located in Downtown Miami. Slated for completion in early 2021, this will be the first YOTELPAD on the East Coast of the United States.

After coming to market in June of 2018, YOTELPAD Miami's sales and marketing team, OneWorld Properties, led by Peggy Olin, has successfully sold more than 50 percent of its residences within just six months. The team's success is a result of their dedication and perseverance, as well as their deep knowledge and experience internationally and locally within the Miami market.

The development's attractive short-term rental options without any restrictions and leaseback program offers owners flexibility. The minimalistic product is increasingly popular among buyers looking for efficiently-sized units with attainable price points in the $300,000–$500,000 range.

"Our team has sold over 18 units per month over the last six months – that is 111 units and counting. This is something we have not seen in Miami in a long time," said Peggy Olin, president and CEO of OneWorld Properties. "Buyers understand the value and freshness of the YOTEL brand and are looking for flexibility and a prime location. Miami serves as a significant gateway to global markets and has one of the largest financial districts in the U.S. Our team was able to take all the incredible elements of this project and the Downtown area to deliver the right product for this market."

Yotel Hotel
Modern Life style

More than 40 percent of the development's buyers are investors from Mexico and China with a substantial amount of investors also coming from Argentina, Colombia and other South American markets. OneWorld Properties has been dominating the international real estate market for more than 10 years with over $3 billion in residential sales. Overall, transactions from international buyers account for 80 percent of the firm's sales of U.S. properties.

"The realization of YOTELPAD is a major milestone for Downtown Miami," said David Arditi, principal of Aria Development Group. "It's the first time a global hospitality brand will offer luxury living at an attainable price point. The innovative PAD concept, with its clever and adaptable floorplans and flexible rental options, is being received with great enthusiasm by local and international buyers alike. We are excited to forge ahead with construction and bring this highly-anticipated project to life."

"As global experts in the residential real estate market, we believe in YOTEL's new 'live smarter' PAD concept," said Fahad Al-Shamlan, vice president of Investments & Acquisitions for AQARAT. "Our partnership with Aria Development Group on this project will transcend the boundaries of luxury in high-end resort destinations for the modern person."

Upon completion of the project, YOTELPAD Miami will incorporate three Techi robot butlers capable of delivering beverages, food, gifts, documents and more. Raising the standard for residential amenities, two robots will be available to residents and one will be designated to guests of the hotel. The robots can be programmed to speak a variety of languages, dialogues and play digital files with music and voice recordings. Other amenities include: concierge services, secure bike storage, gourmet matcha bar, full-service restaurant and bar with outdoor seating and private dining, state-of-the-art fitness center, co-working space, a lounge, pool deck and pet salon. In addition, each PAD will come with a dedicated storage unit. Stantec, one of North America's premier architecture firms, is the lead architect, interior designer and engineer for the project.

"We are thrilled to render our unique integrated services at Miami's first YOTEL brand," said Adriana Jaegerman, senior principal in Stantec's Miami office. "The building's modern, stylish architecture and sophisticated interiors will make a bold design statement in downtown Miami."

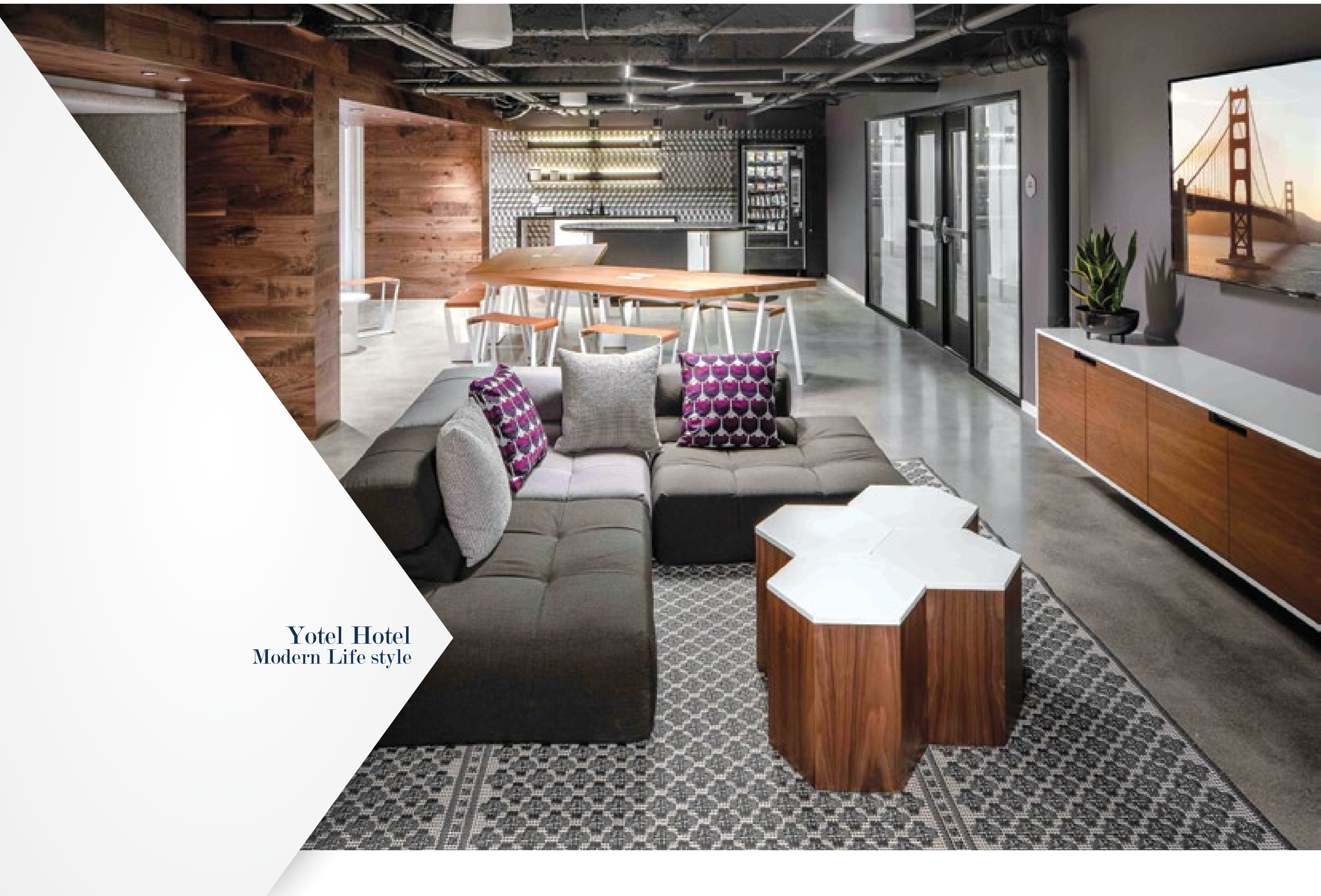
The new YOTELPAD concept falls under the YOTEL umbrella, the successful brand known for its cleverly designed affordable luxury hotels in New York, Singapore, Boston and San Francisco as well as YOTELAIR properties around the globe. Over the last year, the brand has announced 18 new locations in countries around the world including the U.S., Portugal, Switzerland, Holland, Turkey, Istanbul, and Dubai. Its recent expansion solidifies the brand's global success in its ability to optimize space through adaptable design and smart technology in every city they reach.

The mixed-use development will boast 231 residential units (PADs) and 222 hotel rooms (cabins) along with carefully cultivated floorplans and integrated living designs for an urban-chic lifestyle. The development will offer studios, one- and two-bedroom residences with prices starting in the $300,000 range.

YOTEL SAN FRANCISCO

In late 2018, AQARAT's Yotel San Francisco officially opened its first West Coast. The property is YOTEL's eighth hotel under operation or development in the United States, joining a lineup of Boston, Miami, New York, Park City, Mammoth, and Long Island City. Located at 1095 Market Street, YOTEL San Francisco is situated in the historic Grant Building, restored to creatively leverage its unique features throughout the property.

A global hub for business and the epicenter for innovation, San Francisco is a natural fit for the tech-forward YOTEL brand. The reinvigorated Mid-Market neighborhood - flanked by the financial district and City Hall - is known for its expanding technology scene, music venues, and dining destinations. YOTEL San Francisco is a short walk from the Moscone Center and the famous Powell and Market Cable Car turnaround and is within a 15 minute rideshare of Fisherman's



Yotel Hotel
Modern Life style

Wharf, the Golden Gate Bridge, and the forthcoming Warriors arena. Mid-Market borders SoMa's bustling neighborhood, allowing easy access to shops, museums and Michelin-star restaurants.

YOTEL San Francisco is the brand's first adaptive re-use office conversion project. Constructed in 1905, the Grant Building is one of three that survived both the 1906 and 1989 earthquakes in San Francisco. Blending the old and new, YOTEL incorporated tech-forward amenities such as self-check-in kiosks, whilst also maintaining the building's historic charm, incorporating many original features into the hotel design, from exposed brick walls to arched windows and its original marble staircase.

The property has 203 rooms (or cabins as they are known at YOTEL), each with distinct floor plans to accommodate the building's original layout and frame.

YOTEL's first-ever Sky Cabins make up almost half of the San Francisco property, featuring mezzanine-level sleeping accommodations accessed by a staircase and perfect for the solo traveler. Cabins are equipped with YOTEL's signature features, including the space-saving adjustable SmartBed™ in Premium Cabins, luxury amenities from Urban Skincare, rejuvenating rain showers and heated towel racks, multiple power and USB charging ports, free super-fast WiFi, HD SMART TVs and more.

While staying on-property, guests can seamlessly switch from work to play with access to KOMYUNITI, a public area that includes co-working and informal meeting spaces, an 'always-open' fully-equipped gym, and top-notch food and beverage offerings slated to open in conjunction with award winning celebrity chef, Daniel Patterson this summer. Ideal for happy hour or a night out on the town, this offering will also include a rooftop bar - "The Grant"- which will offer outdoor seating and stunning 360-degree views of the San Francisco skyline with unobstructed views of City Hall. YOTEL San Francisco's ground floor will feature an all-day restaurant and bar with a carefully curated menu that celebrates the best of California's diverse ingredients and cultures.

Domus Staff Housing

In the fourth quarter of 2018, AQARAT acquired a series of 5 plots totaling 231,000 square feet of development land located in Dubai Production City in the emirate of Dubai. The company plans to embark on an extensive development project to develop state-of-the-art, staff housing accommodation located within close proximity to several of Dubai's major tourism hubs. The intent is to court a variety of hospitality companies with staff housing needs located within a 25 minute radius of the site. The project will consist of over 590,000 square feet of rentable area, eventually housing over 5,000 hospitality staff of varying employment levels. The project seeks to create a sense of community where hospitality professionals within several disciplines from various hotel flags and other hospitality related companies.

The project is to be developed over five phases, the first, which will consist of two towers housing over 2,000 employees is set to break ground in the second quarter of 2019. The remaining phases will each consist of one additional tower housing 1,000 employees each and will be spaced out over the next several years and will break ground once certain pre-lease thresholds are met.

Reasons:

Strong Growth for Staff Housing Demand:

Demand for staff accommodation is poised to grow by seven per cent between 2017 and 2020 - from 203,000 individuals to 263,000 individuals. The value of the corporate housing segment is also set for an exponential rise from AED 5.2 billion to AED 7.4 billion during the same period

Supply Constrained within Desirable Locations:

Proximity to Dubai Marina and Palm Jumeirah and the multitude of hotels within those locations afford the project a deep well of potential hospitality assets in which to lease staff housing.

Opportunities Remain:

The market remains fragmented with regard to hospitality housing

The cluster of dwellings within each unit type will each ensuite restrooms, while utilizing shared space within the common area for kitchen facilities and recreational areas. The first phase of the project is to consist of two buildings housing 1,000 employees each. The unit mix will be a range of 2, 3, 4 and 5 bedroom units, housing a minimum of two employees per unit up to 10 employees per unit depending on desired tenant usage and occupancy per key.

The units are designed in such a manner that each individual dwelling within the units allows for maximum comfort and efficiency, including a dedicated ensuite restroom within each individual room.

Financial Statements

Financial Statements

Grant Thornton
Al-Qatami, Al-Aiban & Partners
An instinct for growth™

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Independent auditor's report

To the shareholders of
Kuwait Real Estate Company – KPSC
Kuwait

Report on the Audit of the Consolidated Financial Statements
Opinion
We have audited the consolidated financial statements of Kuwait Real Estate Company - KPSC (the "Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties
The Group's investment properties comprise of lands and buildings in Kuwait, GCC and other countries. The total value of investment properties are significant to the Group's consolidated financial statements and are carried at fair value. Management determines the fair value of its investment properties on a periodic basis using external appraisers to support the valuation.

Investment properties are valued using mark to market approach which is based on the latest sale prices of properties within similar areas for certain investment properties, and income capitalization approach which is based on estimates and assumptions such as rental values, occupancy rates, discount rates, financial stability of tenants, market knowledge and historical transactions for certain other properties. Also, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter. The Group's disclosures about its investment properties are included in Notes 11 and 31.3.

Independent Auditor's Report to the Shareholders of Kuwait Real Estate Company - KPSC and Subsidiaries (continued)

Key Audit Matters (continued)
Valuation of investment properties (continued)
As part of our audit procedures amongst others, we have evaluated the above assumptions and estimates made by management and the external appraisers in the valuation and assessed the appropriateness of the data supporting the fair value. Furthermore, we assessed the appropriateness of the disclosures relating to the sensitivity of the assumptions.

Valuation of financial assets at FVTPL and FVTOCI
The Group's financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) include significant unquoted investments. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models. Therefore, there is significant measurement uncertainty involved in valuations. As a result, the valuations of these instruments was significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its financial assets at FVTPL and FVTOCI are included in Notes 12, 17 and 31.2 to the consolidated financial statements.

Our audit procedures included agreeing carrying value of the unquoted securities to the Group's internal or external valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtained supporting documentation and explanations to corroborate the valuations.

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

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

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

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

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

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

Independent Auditor's Report to the Shareholders of Kuwait Real Estate Company - KPSC and Subsidiaries (continued)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report to the Shareholders of Kuwait Real Estate Company - KPSC and Subsidiaries (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
27 March 2019

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2018

Consolidated statement of profit or loss

	Notes	**Year ended 31 Dec 2018 KD**	Year ended 31 Dec 2017 KD
Income			
Real estate rental income		**17,463,393**	17,072,342
Real estate operating expenses		**(7,288,690)**	(7,455,080)
Net rental income		**10,174,703**	9,617,262
Loss on sale of investment properties	11	**-**	(20,076)
Change in fair value of investment properties	11	**347,770**	474,560
Loss on sale of trading properties		**(246,395)**	-
Share of results of associates	13	**304,148**	208,329
Loss on sale of associate		**-**	(813,104)
Gain on bargain purchase of associate		**-**	75,530
Gain on sale of available for sale investments		**-**	92,495
Change in fair value of financial assets at fair value through profit or loss		**1,847,377**	(11,955)
Gain on sale of financial assets at fair value through profit or loss		**-**	3,865
Dividend income	9	**372,370**	357,983
Foreign exchange (loss)/gain		**(37,013)**	28,310
Reversal of provision no longer required	8	**903,744**	-
Other income		**844,846**	1,777,878
		14,511,550	11,791,077
Expenses and other charges			
General and administrative expenses		**(1,437,717)**	(1,322,976)
Finance costs		**(5,396,267)**	(4,989,573)
Provision for doubtful debts	15	**(604,133)**	(442,787)
Impairment of available for sale investments		**-**	(2,179,287)
Provision for trading properties	14	**-**	(542,090)
		(7,438,117)	(9,476,713)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST),Zakat and Board of Directors' remuneration		**7,073,433**	2,314,364
Provision for KFAS		**(31,800)**	(10,415)
Provision for NLST		**(176,665)**	(57,859)
Provision for Zakat		**(77,518)**	(23,144)
Board of directors' remuneration		**(40,000)**	-
Profit for the year		**6,747,450**	2,222,946
Basic and diluted earnings per share (fils)	10	**7.54**	2.46

The notes set out on pages 54 to 102 form an integral part of this consolidated financial statements.

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
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Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
Profit for the year	**6,747,450**	2,222,946
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the period	**(6,930,012)**	-
Items that may be reclassified subsequently to consolidated statement of profit or loss:		
Available for sale investments:		
- Net change in fair value	**-**	(2,487,710)
- Transferred to consolidated statement of profit or loss due to sale	**-**	(103,098)
- Transferred to statement of profit or loss on impairment	**-**	2,179,287
Exchange differences arising on translation of foreign operations	**15,575**	(413,892)
Total other comprehensive loss	**(6,914,437)**	(825,413)
Total comprehensive (loss)/income for the year	**(166,987)**	1,397,533

Kuwait Real Estate Company – KPSC and Subsidiaries
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Consolidated statement of financial position

	Notes	**31 Dec 2018 KD**	31 Dec 2017 KD
Assets			
Non-current assets			
Property and equipment		**1,986,775**	2,148,812
Investment properties	11	**174,739,425**	164,278,166
Capital work in progress		**221,864**	457,170
Financial assets at fair value through other comprehensive income	12	**31,963,886**	-
Available for sale investments		**-**	57,756,230
Investment in associates	13	**5,919,095**	3,623,001
Total non-current assets		**214,831,045**	228,263,379
Current assets			
Trading properties	14	**9,258,085**	12,401,500
Due from related parties	27	**2,019,328**	1,304,124
Accounts receivable and other assets	15	**3,412,677**	3,248,896
Advance payments for purchase of investments	16	**14,037,524**	-
Financial assets at fair value through profit or loss	17	**24,374,499**	22,006
Cash and cash equivalents	18	**2,961,865**	4,600,827
Total current assets		**56,063,978**	21,577,353
Total Assets		**270,895,023**	249,840,732
Equity and liabilities			
Equity			
Share capital	19	**90,671,294**	90,671,294
Share premium	19	**3,425,191**	3,425,191
Treasury shares	20	**(943,694)**	(208,149)
Treasury shares reserve		**2,298,155**	2,298,155
Statutory reserve	21	**15,785,487**	15,078,144
Voluntary reserve	21	**3,629,332**	2,921,989
Foreign currency translation reserve		**142,619**	127,044
Fair value reserve		**(119,684)**	6,050,732
Retained earnings		**17,419,769**	12,953,860
Total Equity		**132,308,469**	133,318,260
Liabilities			
Non-current liabilities			
Borrowings	22	**111,571,399**	90,624,709
Provision for employees' end of service benefits		**785,897**	709,297
Total non-current liabilities		**112,357,296**	91,334,006
Current liabilities			
Due to related parties	27	**696,671**	707,666
Borrowings	22	**6,892,877**	1,905,000
Lease contracts liability	24	**3,207,996**	5,274,288
Accounts payable and other liabilities	25	**11,032,321**	15,653,862
Due to bank	23	**4,399,393**	1,647,650
Total current liabilities		**26,229,258**	25,188,466
Total Liabilities		**138,586,554**	116,522,472
Total Equity and Liabilities		**270,895,023**	249,840,732

Talal Jassem Al-Bahar
Vice Chairman & CEO

The notes set out on pages 54 to 102 form an integral part of this consolidated financial statements.

Consolidated statement of changes in equity

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2017	90,671,294	3,425,191	(208,149)	2,298,155	14,846,707	2,690,552	540,936	6,462,253	11,193,788	131,920,727
Profit for the year	-	-	-	-	-	-	-	-	2,222,946	2,222,946
Other comprehensive loss	-	-	-	-	-	-	(413,892)	(411,521)	-	(825,413)
Total comprehensive (loss)/income for the year	-	-	-	-	-	-	(413,892)	(411,521)	2,222,946	1,397,533
Transferred to reserves	-	-	-	-	231,437	231,437	-	-	(462,874)	-
Balance at 31 December 2017	90,671,294	3,425,191	(208,149)	2,298,155	15,078,144	2,921,989	127,044	6,050,732	12,953,860	133,318,260
Adjustment arising on adoption of IFRS 9 (note 4.1)	-	-	-	-	-	-	-	871,831	(979,090)	(107,259)
Balance as at 1 January 2018 (restated)	**90,671,294**	**3,425,191**	**(208,149)**	**2,298,155**	**15,078,144**	**2,921,989**	**127,044**	**6,922,563**	**11,974,770**	**133,211,001**
Purchase of treasury shares	-	-	**(735,545)**	-	-	-	-	-	-	**(735,545)**
Total transactions with owners	-	-	**(735,545)**	-	-	-	-	-	-	**(735,545)**
Profit for the year	-	-	-	-	-	-	-	-	**6,747,450**	**6,747,450**
Other comprehensive income/(loss)	-	-	-	-	-	-	**15,575**	**(6,930,012)**	-	**(6,914,437)**
Total comprehensive income/(loss) for the year	-	-	-	-			**15,575**	**(6,930,012)**	**6,747,450**	**(166,987)**
Gain on sale of financial assets at FVTOCI	-	-	-	-	-	-	-	**(112,235)**	**112,235**	-
Transferred to reserves	-	-	-	-	**707,343**	**707,343**	-	-	**(1,414,686)**	-
Balance at 31 December 2018	**90,671,294**	**3,425,191**	**(943,694)**	**2,298,155**	**15,785,487**	**3,629,332**	**142,619**	**(119,684)**	**17,419,769**	**132,308,469**

The notes set out on pages 54 to 102 form an integral part of this consolidated financial statements.

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
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Consolidated statement of cash flows

	Notes	**Year ended 31 Dec 2018 KD**	Year ended 31 Dec 2017 KD
OPERATING ACTIVITIES			
Profit for the year		**6,747,450**	2,222,946
Adjustments:			
Depreciation		**351,842**	320,837
Finance costs		**5,396,267**	4,989,573
Loss on sale of investment properties		**-**	20,076
Change in fair value of investment properties	11	**(347,770)**	(474,560)
Provision for trading properties	14	**-**	542,090
Loss on sale of trading properties		**246,395**	-
Share of results of associates	13	**(304,148)**	(208,329)
Gain on bargain purchase of associate		**-**	(75,530)
Loss on sale of associate		**-**	813,104
Gain on sale of available for sale investments		**-**	(92,495)
Impairment of available for sale investments		**-**	2,179,287
Gain on sale of financial assets at fair value through profit or loss		**-**	(3,865)
Change in fair value of financial assets at fair value through profit or loss		**(1,847,377)**	11,955
Provision for doubtful debts		**604,133**	442,787
Dividend income		**(372,370)**	(357,983)
Reversal of provision no longer required		**(903,744)**	-
Provision for employees' end of service benefits		**182,450**	144,753
		9,753,128	10,474,646
Changes in operating assets and liabilities:			
Due from related parties		**(715,204)**	380,000
Accounts receivable and other assets		**(767,916)**	745,982
Advances payments for purchase of investments		**(14,037,524)**	-
Accounts payable and other liabilities		**(11,114)**	(2,052,458)
Due to related parties		**(10,995)**	(3,137,428)
Lease contracts liability		**(2,066,292)**	(2,066,291)
Employees' end of service benefits paid		**(105,850)**	(566,698)
Net cash (used in)/from operating activities		**(7,961,767)**	3,777,753
INVESTING ACTIVITIES			
Purchase of property and equipment		**(189,805)**	(643,974)
Capital work in progress		**235,306**	(393,726)
Purchase of investment properties	11	**(10,113,489)**	-
Proceeds from sale of investment properties	11	**-**	1,152,243
Purchase of investment at fair value through profit or loss		**(450,446)**	-
Proceed from sale of financial assets at fair value through profit or loss		**-**	9,138
Purchase of trading properties		**-**	(14,266)
Proceeds from sale of available for sale investments		**-**	671,635
Purchase of available for sale investments		**-**	(4,922,575)
Purchase of financial assets at fair value through other comprehensive income		**(5,617,147)**	-
Proceed from sale of financial assets at fair value through other comprehensive income		**910,985**	-
Dividend received from associates	13	**471,165**	103,392
Purchase of associates		**(734,926)**	-
Restricted bank balance		**98,536**	(236,114)
Increase in term deposits		**(174,418)**	-
Dividend income received		**372,370**	357,983
Net cash used in investing activities		**(15,191,869)**	(3,926,264)

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2018

Consolidated statement of cash flows (continued)

	Notes	**Year ended 31 Dec 2018 KD**	Year ended 31 Dec 2017 KD
FINANCING ACTIVITIES			
Net change in borrowings	26	**25,926,569**	6,489,508
Finance costs paid		**(6,164,863)**	(3,607,237)
Purchase of treasury shares		**(735,545)**	-
Net cash from financing activities		**19,026,161**	2,882,271
Net (decrease)/increase in cash and cash equivalents		**(4,127,475)**	2,733,760
Foreign currency adjustments		**(339,112)**	98,909
Cash and cash equivalents at the beginning of the year	18	**2,618,615**	(214,054)
Cash and cash equivalents at the end of the year	18	**(1,847,972)**	2,618,615
Non-cash transactions:			
Investment in associate		**1,728,185**	-
Financial assets at fair value through other comprehensive income		**1,819,801**	-
Purchase of available for sale investments		**-**	(400,000)
Due to related parties		**-**	(3,650,740)
Sale of associate		**-**	4,050,741

Notes to the consolidated financial statements

1 Incorporation and activities of the Parent Company

Kuwait Real Estate Company – KPSC ("the 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 principle 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 electrical 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.

Notes to the consolidated financial statements

1 Incorporation and activities of the Parent Company (continued)

The Parent Company has the right to perform the above mentioned activities inside and outside the State of Kuwait directly or through an agent. The Parent 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 Parent Company may also establish or share or purchase these entities or affiliate them therewith.

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

These consolidated financial statements for the year ended 31 December 2018 were authorised for issue by the Parent Company's board of directors on 27 March 2019. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income 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 and presentation currency of the Parent Company.

The Group has elected to present the "statement of profit or loss and other comprehensive income" in two statements: the "statement of profit or loss" and "statement of profit or loss and other comprehensive income"

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), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

4 Changes in accounting policies

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 2018 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IAS 40 Investment Property – Amendments	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The main areas of impact are as follows:

- the classification and measurement of the financial assets are based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment is recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it is no longer possible to measure equity investments at cost less impairment and all such investments are instead measured at fair value. Changes in fair value are presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements are presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVTOCI) and Fair value through profit or loss (FVTPL). The standard eliminates IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVTOCI) are now recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVTOCI are now recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets continues to be recognised in profit or loss.

Based on the analysis of the Group's financial assets and liabilities as at 1 January 2018 and of the circumstances that existed at that date, management of the Group have determined the impact of implementation of IFRS 9 on the consolidated financial statements as follows:

Classification and measurement:

Certain financial assets are likely to be measured at Fair Value Through Profit or Loss (FVTPL) as the cash flows are not solely payments of principal and interest.

Debt instruments to be measured at FVTOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt financial instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

Equity investments are to be measured at FVTPL as well as FVTOCI as certain existing investments in equity instruments qualify for designation as FVTOCI category. The gains and losses on FVTOCI investments will no longer be recycled to statement of profit or loss on subsequent measurement or on derecognition. Further, these investments are no longer subject to impairment test.

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments (continued)

Classification and measurement: (continued)

Accounts receivable, due from related parties and advances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The following table explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	IAS 39		IFRS 9	
	Classification	**Carrying amount KD**	**Classification**	**Carrying amount KD**
Financial assets				
Cash and cash equivalents	Loans and receivables	4,600,827	Amortised cost	4,600,827
Accounts receivable and other assets and due from related parties	Loans and receivables	4,553,020	Amortised cost	4,445,761
Local quoted securities	FVTPL	18,079	FVTPL	18,079
Local quoted securities	Available for sale	718	FVTPL	718
Local quoted securities	Available for sale	14,269,048	FVTOCI	14,269,048
Local unquoted securities	Available for sale	418,768	FVTPL	418,768
Local unquoted securities	Available for sale	9,590,350	FVTOCI	9,590,350
Foreign quoted securities	FVTPL	3,927	FVTPL	3,927
Foreign unquoted securities	Available for sale	14,685,847	FVTPL	14,685,847
Foreign unquoted securities	Available for sale	8,779,663	FVTOCI	8,779,663
Debt instruments	Available for sale	6,883,240	FVTPL	6,883,240
Debt instruments	Available for sale	3,069,696	FVTOCI	3,069,696
Managed funds	Available for sale	58,900	FVTPL	58,900

As a result of the above re-classification of available for sale investments to financial assets at fair value through profit or loss, the Group reclassified a loss amount of KD871,831 from the fair value reserve to the retained earnings.

There is no impact on the financial liabilities of the Group and will continue to be measured at amortised cost.

4 Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments (continued)

Impairment:

IFRS 9 requires the Group to record expected credit losses (ECL) on all of its financial assets measured at amortised cost. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Under IFRS 9, the Group measures ECL as follows:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Group has applied simplified approach to impairment for accounts receivable and other assets as required or permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

As a result, the Group recognised an additional impairment loss amounting to KD107,259 in the retained earnings as at 1 January 2018 on its financial assets at amortised cost.

Summary of impact on application of IFRS 9:

As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement, and including impairment requirements. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in the retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Adjustments to the opening statement of financial position are detailed below:

	31 Dec. 2017 KD	Adjustments/ reclassification KD	1 Jan. 2018 KD
Assets			
Accounts receivable and other assets and due from related parties	4,553,020	(107,259)	4,445,761
Financial assets at fair value through profit or loss	22,006	18,573,002	18,595,008
Financial assets at fair value through other comprehensive income	-	39,183,228	39,183,228
Available for sale investments	57,756,230	(57,756,230)	-
Equity			
Fair value reserve	6,050,732	871,831	6,922,563
Retained earnings	12,953,860	(979,090)	11,974,770

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Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenues – 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
- Recognise 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:
    - o non-cash consideration and asset exchanges
    - o contract costs
    - o rights of return and other customer options
    - o supplier repurchase options
    - o warranties
    - o principal versus agent
    - o licensing
    - o breakage
    - o non-refundable upfront fees, and
    - o consignment and bill-and-hold arrangements.

The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

4 Changes in accounting policies (continued)

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

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of this 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 consolidated 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 consolidated financial information.

Standard or Interpretation	Effective for annual periods beginning
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 16 Leases	1 January 2019
IAS 28 - Amendments	1 January 2019
IFRS 3 - Amendments	1 January 2020
IAS 1 and IAS 8 - Amendments	1 January 2020

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 recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

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

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 a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

Management anticipate that the application of this standards in the future will have a significant impact on the Group's consolidated financial statements. As a result total assets and total liabilities will equally increase

IAS 28 – Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 3 – Amendments

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 1 and IAS 8 – Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

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's companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group's 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 Company 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 profit or loss.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

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.

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 profit or loss.

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 i) fair value of consideration transferred, ii) the recognised amount of any non-controlling interest in the acquiree and iii) 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 profit or loss immediately.

5.3 Rental income

Rental income is recognised on accrual basis.

5.4 Dividend

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

5.5 Interest and similar income

Interest and similar income are recognised on accrual basis using the effective interest method

5.6 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their occurrence.

5.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.8 Taxation

5.8.1 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.

5.8.2 National Labour Supporting tax

The National Labour Support Tax (NLST) is calculated at 2.5% of the profit for the year attributable to the owners of the Parent Company in accordance with the Ministry of Finance resolution No. 24 for the year 2006 and Law No. 19 for the year 2000.

5.8.3 Zakat

Contribution to Zakat is calculated at 1% of the profit for the year attributable to the owners of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

5.9 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease:
The Group as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee
Rentals payable under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

5.10 Property and equipment

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

Property and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses, if any. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of properties and 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 property and equipment.

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

When asset is 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 statement of profit or loss.

5 Significant accounting policies (continued)

5.11 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the period in which they arise. Fair values are estimated by management with the assistance of valuation provided by accredited external valuers.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition.

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 property and equipment up to the date of change in use.

5.12 Trading properties

Trading properties are recorded at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each property to its present condition including the identified finance cost. Net realizable value is based on estimated selling price less any further cost expected to be incurred on completion and disposal.

5.13 Capital work in progress

Capital work in progress is carried at cost less impairment in value (if any). Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed, the asset is transferred to the respective assets class.

The carrying values of capital work in progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

5.14 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.14 Investment in associates (continued)

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 statement of profit or loss.

5.15 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.

5.16 Financial instruments

5.16.1 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 directly attributable 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.

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

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.16 Financial instruments (continued)

5.16.1 Recognition, initial measurement and derecognition (continued)

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 statement of profit or loss.

5.16.2 Classification of financial assets

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

- financial assets at amortised cost
- financial assets at fair value through Other Comprehensive Income (FVTOCI)
- financial assets at fair value through profit or loss (FVTPL)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other
- comprehensive income if certain criteria are met and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as
- measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

5.16.3 Subsequent measurement of financial assets

• Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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.

The Group's financial assets at amortised cost comprise of the following:

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash in portfolios, term deposits and bank balances which are subject to insignificant risk of changes in value.

- *Accounts receivable and other assets*

Accounts receivable and other assets are stated at original 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

- *Due from related parties*

Due from related parties are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.16 Financial instruments (continued)

5.16.3 Subsequent measurement of financial assets (continued)

• Financial assets at FVTOCI

The Group's financial assets at FVTOCI comprise equity investments and debt instruments. The equity investments represent investments in shares of various companies and include both quoted and unquoted.

The Group accounts for financial assets at FVTOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the consolidated statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

Equity investments at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.
Notes to the consolidated financial statements (continued)

• Financial assets at FVTPL

Financial assets that do not meet the criteria for measurement at amortised cost or FVTOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains investments in equity shares.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of 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.

The Group's financial assets at FVTPL comprise investments in equity instruments.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.16 Financial instruments (continued)

5.16.4 Impairment of financial assets

All financial assets except for those at FVTPL and equity investments at FVTOCI 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.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVTOCI.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.16 Financial instruments (continued)

5.16.5 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, accounts payable and other liabilities, lease contract liability, due to related parties and due to banks.

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

• ***Financial liabilities at amortised cost***

These are stated using effective interest rate method. Due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable are classified as financial liabilities other than at FVTPL.

Bank loans and due to banks

Bank loans and due to bank are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Murabaha payable and Tawaroq payable

Murabaha payable and Tawaroq payable represents amounts payable on a deferred settlement basis for assets purchased under Murabaha and Tawaroq payable arrangements. Murabaha payable and Tawaroq payable 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.

All the profit-related charges are included within finance costs.

Accounts payable and other liabilities

Accounts payable and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

Due to related parties

Due to related parties are financial liabilities arising in the normal courses of the business and are not quoted in an active market.

Lease contract liability

Lease contract liability represent the accrued rental payable which shall be paid annually.

5.17 Amortised 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.

5.18 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised 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.

5.19 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

5 Significant accounting policies (continued)

5.20 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 27.

5.21 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 incorporation.

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 Company 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.

5.22 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.23 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. Treasury shares are accounted for under cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. Treasury shares are not entitled to cash dividends that the Group may distribute. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

When the treasury shares are reissued, gains are recorded directly in "Treasury shares reserve" in the shareholders' equity. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and legal reserve. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves and retained earnings equal to the loss previously charged to this account.

5.24 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.

5.25 Foreign currency translation

5.25.1 Functional and presentation currency

The consolidated financial statements are presented in 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.

5.25.2 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 recognised 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.

5.25.3 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.26 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

In addition, 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. These contributions are expensed when due.

6 Significant management judgements 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 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 5.16). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

6.1.2 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property under development or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the consolidated statement of profit or loss.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. And if such properties are under development with an intention of being sold in future they are classified under trading properties under 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. And if such properties are under development they are classified under investment properties under development.

Notes to the consolidated financial statements

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

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

6.1.4 Fair values of assets and liabilities acquired

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant 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 recognise 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 statement of profit or loss.

6.2.2 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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

6.2.3 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

6.2.4 Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

Notes to the consolidated financial statements

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.5 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.

6.2.6 Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised 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.

6.2.7 Significant influence

Significant influence exists when the size of an entity's own voting rights relative to the size and dispersion of other vote holders, give the entity the practical

Notes to the consolidated financial statements

7 Subsidiary companies

Name of subsidiary	Country of incorporation	Ownership Percentage 31 Dec. 2018	Ownership Percentage 31 Dec. 2017	Principle activity
Habara Pearl Farm Company – American Shareholding Co.**	USA	**100%**	100%	Investment
Al-Aqdain Kuwaiti for Real Estate Development Co– KSCC *	Kuwait	**99.99%**	96%	Real estate
Financial Group of Kuwait Co. – KSC (Holding)	Kuwait	**99.99%**	99.99%	Investment
KREC Debt Company Limited **	Cayman Islands	**100%**	100%	Investment
KREC Equity Company Limited **	Cayman Islands	**100%**	100%	Investment
KREC Meeker Debt Company Limited **	Cayman Islands	**100%**	100%	Investment
KREC Meeker Equity Company Limited **	Cayman Islands	**100%**	100%	Investment
KREC Yotel Miami Debt Company Limited ***	Cayman Islands	**-**	100%	Investment
KREC Yotel Miami Equity Company Limited ***	Cayman Islands	**-**	100%	Investment
IFA Hotels and Resorts Co. – S.A.L (Lebanon) **	Lebanon	**100%**	100%	Real estate
Al-Fereej International Real Estate Co. – WLL*	Kuwait	**99%**	99%	Real estate

* The remaining shares of these subsidiaries are held in the name of related parties as nominees on behalf of the Parent Company, who have confirmed in writing that the Parent Company is the beneficial owner of these shares.

** The financial statements of subsidiaries have been consolidated based on financial statements prepared by managements of these subsidiaries.

*** During the year the Group waived part of its voting right in those investees to a third party. Accordingly, the Group's control over these subsidiaries was lost. However, the Group reclassified this investment as associates because it is able to exercise significant influence over the operations of associates but do not have control. No gain or loss resulted on reclassification.

8 Reversal of provision no longer required

During a prior year, the Parent Company had filed a legal case against the Ministry of Finance disputing the basis of calculation of National Labour Support Tax imposed for the financial years ended 31 December 2005 and 31 December 2007 aggregating to KD1,934,707.

Subsequently and after hearing of the case at the Court of First Instance and the Court of Appeal, it has been ruled that the National Labour Support Tax due for the above financial years amounts to only KD1,030,963. Accordingly, the Parent Company has reversed the excess provision of KD903,744.

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9 Net (loss)/gain on financial assets

Net (loss)/gain on financial assets, analysed by category, is as follows:

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
Financial assets at fair value through profit or loss:		
Change in fair value	**1,847,377**	(11,955)
Gain on sale	**-**	3,865
	1,847,377	(8,090)
Financial assets at fair value through other comprehensive income:		
Interest income	**129,396**	-
Dividend income	**372,370**	-
Recognised in consolidated statement of profit or loss	**501,766**	-
Loss on change in fair value	**(6,930,012)**	-
Gain on sale	**112,235**	-
Recognised in equity	**(6,817,777)**	-
	(6,316,011)	-
Financial assets available for sale:		
Gain on sale	**-**	92,495
Interest income	**-**	127,202
Dividend income	**-**	357,983
Impairment of available for sale investments	**-**	(2,179,287)
Recognised in consolidated statement of profit or loss	**-**	(1,728,809)
Recognised in equity	**-**	(2,487,710)
	-	(4,216,519)
	(4,468,634)	(4,224,609)

10 Basic and diluted earnings per share

Basic and diluted earnings per share 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 excluding treasury shares. As there are no dilutive instruments outstanding basic and diluted earnings per share are identical.

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
Profit for the year (KD)	**6,747,450**	2,222,946
Weighted average number of shares outstanding during the year (excluding treasury shares) (share)	**894,717,379**	905,339,849
Basic and diluted earnings per share (Fils)	**7.54**	2.46

Notes to the consolidated financial statements

11 Investment properties

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
At 1 January	**164,278,166**	164,728,737
Additions during the year	**8,286,695**	-
Transferred from capital work in progress	**1,826,794**	247,189
Disposals during the year	**-**	(1,172,320)
Change in fair value	**347,770**	474,560
At 31 December	**174,739,425**	164,278,166

The Group's investment properties are located as follows:

	31 Dec 2018 KD	31 Dec 2017 KD
Kuwait	**148,421,800**	144,646,200
GCC and other countries	**26,317,625**	19,631,966
	174,739,425	164,278,166

Investment properties of KD153,594,200 (2017: KD102,950,000) are pledged against borrowings and due to bank (note 20 and note 21).

Note 31.3 sets out the measurement basis of fair value of the investment properties.

Notes to the consolidated financial statements

12 Financial assets at fair value through other comprehensive income

	31 Dec 2018 KD	31 Dec 2017 KD
Local quoted securities	**9,156,652**	-
Local unquoted securities	**13,395,347**	-
Foreign unquoted securities	**7,847,631**	-
Debt instruments	**1,564,255**	-
	31,963,886	-

These investments are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate these financial assets as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these financial assets in consolidated statement of profit or loss would not be consistent with the Group's strategy of holding these financial assets for long-term purposes and realising their performance potential in the long run. As of 31 December 2018, the above financial assets represent investment in various business sectors as follows:

	Financial services KD	**Real estate KD**	**Consumer services KD**	**Others KD**	**Total KD**
Local quoted securities	**953,493**	**3,377,776**	**4,804,626**	**20,757**	**9,156,652**
Local unquoted securities	**3,191,296**	**6,609,316**	**3,499,544**	**95,192**	**13,395,348**
Foreign unquoted securities	**147,903**	**7,576,914**	**122,814**	**-**	**7,847,631**
Debt instruments	**-**	**1,564,255**	**-**	**-**	**1,564,255**
	4,292,692	**19,128,261**	**8,426,984**	**115,949**	**31,963,886**

Debt instruments represent promissory notes to foreign companies and carry annual interest rate 10%.

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 31.2.

Notes to the consolidated financial statements

13 Investment in associates

13.1 Details of the associates are set out below:

Name of associate	Country of incorporation	Ownership Percentage 31 Dec. 2018 %	Ownership Percentage 31 Dec. 2017 %	Principal activities
Kuwait Building Materials Manufacturing – KSCC	Kuwait	**24.58**	24.58	Manufacturing
National Slaughter House Co. – KSCC	Kuwait	**44.22**	44.22	Consumer goods
First Slaughter Company – KSCC	Kuwait	**20.51**	20.51	Consumer goods
EFS Facilities Services General Trading and Contracting Company – WLL	Kuwait	**50**	50	General trading and contracting
KREC Yotel Miami Debt Company Limited	Cayman Islands	**100**	-	Investment
KREC Yotel Miami Equity Company Limited	Cayman Islands	**100**	-	Investment

All the above associates are unquoted.

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

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
At 1 January	**3,623,001**	8,296,379
Arising from reclassification (note 7)	**1,728,185**	-
Additions	**734,926**	85,530
Disposal	**-**	(4,863,845)
Share of results	**304,148**	208,329
Dividends	**(471,165)**	(103,392)
At 31 December	**5,919,095**	3,623,001

13.3 As the associates are individually considered immaterial to the Group, the following is the aggregate information of the associates:

	Year ended 31 Dec 2018 KD	Year ended 31 Dec 2017 KD
Group's share of results	**304,148**	208,329
Group's share of the total comprehensive income	**304,148**	208,329
Aggregate carrying amount of Group's interest in associates	**5,919,095**	3,623,001
Dividends received	**471,165**	103,392

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14 Trading properties

The movement in the trading properties is as follows:

	31 Dec 2018 KD	31 Dec 2017 KD
Balance at 1 January	**13,153,371**	13,139,105
Additions	**-**	14,266
Disposals	**(3,184,480)**	-
	9,968,891	13,153,371
Provision for trading properties	**(852,546)**	(852,546)
Foreign currency translation adjustments	**141,740**	100,675
Balance at 31 December	**9,258,085**	12,401,500

The Group's trading properties are located in Lebanon.

Trading properties with a carrying value of KD4,363,200 (2017: KD4,348,800) are pledged against borrowings (note 20).

15 Accounts receivable and other assets

	31 Dec 2018 KD	31 Dec 2017 KD
Financial assets		
Accounts receivable	**4,132,635**	3,535,293
Refundable deposits	**116,960**	49,610
Other assets	**906,454**	882,862
	5,156,049	4,467,765
Provision for doubtful debts	**(1,954,179)**	(1,242,787)
	3,201,870	3,224,978
Non-financial assets		
Prepaid expenses	**-**	23,918
Other assets	**210,807**	-
	210,807	23,918
	3,412,677	3,248,896

The carrying values of the financial assets included above approximate their fair values and all are due within one year.

The movement in the provision for accounts receivable is as follows:

	31 Dec 2018 KD	31 Dec 2017 KD
Balance at the beginning of the year	**1,242,787**	800,000
Arising on adoption of IFRS 9	**107,259**	-
Charge for the year	**604,133**	442,787
Balance at end of the year	**1,954,179**	1,242,787

Notes to the consolidated financial statements

16 Advance payments for purchase of investments

This advances represent amounts paid for following:

- On 27 December 2018, the Group entered into an agreement to purchase properties located in UAE for a total amount of equivalent KD5,200,000. The title deeds of these properties were transferred to the Group after the date of these consolidated financial statements. Accordingly, this amount has been recognised as an advance payment in these consolidated financial statements.

- During the year, the Group entered into an initial agreement with a related party to acquire a property located in UAE for a total purchase consideration of AED 400 Million (equivalent KD33,200,000). The purchase price will be settled partly in kind by transferring certain properties and balance in cash. The Group is currently in the process of completing the regulatory formalities to register the properties in its name. The amount paid up to the reporting date of KD8,837,524 has been accounted for as an advance payment.

17 Financial assets at fair value through profit or loss

	31 Dec 2018 KD	31 Dec 2017 KD
Local quoted securities	**14,186**	18,079
Local unquoted securities	**370,246**	-
Foreign quoted securities	**3,224**	3,927
Foreign unquoted securities	**16,910,049**	-
Debt instruments	**7,017,894**	-
Managed funds	**58,900**	-
	24,374,499	22,006

The hierarchy for determining and disclosing the fair values of financial instruments is presented in Note 31.2.

18 Cash and cash equivalents

	31 Dec 2018 KD	31 Dec 2017 KD
Cash and bank balances	**2,504,544**	4,056,851
Cash in investment portfolios managed by others	**184,455**	445,528
Term deposits	**272,866**	98,448
Cash and cash equivalents	**2,961,865**	4,600,827
Less:		
Due to bank	**(4,399,393)**	(1,647,650)
Restricted bank balances	**(137,578)**	(236,114)
Term deposits with original maturity exceeding three months	**(272,866)**	(98,448)
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	**(1,847,972)**	2,618,615

Restricted bank balances is maintained with foreign banks to cover any unpaid principal and interest relating to the term loans granted to the Group (note 20).

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19 Share capital and share premium

At 31 December 2018 and 31 December 2017, 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.

The share premium is non-distributable.

20 Treasury shares

	31 Dec 2018	31 Dec 2017
Number of treasury shares	**16,944,661**	1,373,091
Percentage of ownership (%)	**1.87**	0.151
Market value (KD)	**913,317**	76,344
Cost (KD)	**943,694**	208,149

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

21 Reserves

In accordance with the Companies Law and the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) is required to be transferred to legal reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

In accordance with the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) should be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

No transfer is required in a year in which the Parent Company has incurred a loss or where accumulated losses exist.

Notes to the consolidated financial statements

22 Borrowings

	31 Dec 2018 KD	31 Dec 2017 KD
Murabaha payable (i)	**110,212,864**	87,101,489
Tawaroq payable (ii)	**2,261,419**	3,015,225
Term loans (iii)	**5,989,993**	2,412,995
Total	**118,464,276**	92,529,709
Borrowings in KD	**112,474,283**	90,116,714
Borrowings in USD, AED and LBP	**5,989,993**	2,412,995
Total	**118,464,276**	92,529,709

The borrowings due for repayment as follows:

	31 Dec 2018 KD	31 Dec 2017 KD
Within one year	**6,892,877**	1,905,000
Over one year	**111,571,399**	90,624,709
	118,464,276	92,529,709

i) Murabaha payable represents Islamic financing obtained in Kuwaiti Dinar from local and foreign Islamic banks, carry an annual profit rate of 1.5% - 2% (2017: 2% to 2.75) over CBK discount rate and is repayable in different unequal instalments ending on 31 December 2025. Murabaha payable are secured by certain investment properties (note 11).

ii) Tawarruq payable represents Islamic financing obtained in Kuwaiti Dinar from a local Islamic financial institution, carry an annual profit rate of 2.5% (2017: 2.5%) over CBK discount rate and is repayable in four quarterly equal instalments starting on 1 May 2018 and ending on 1 February 2021.

iii) Term loans are obtained in USD and Lebanese Pound from foreign banks. The USD loans carry an annual interest rate of 0.5% over USD Beirut Reference Rate ("BRR") with a minimum of 6.5% and the loans in Lebanese Pound carry an annual interest rate of 0.5% over LBP Beirut Reference Rate ("BRR"). Term loans are secured by certain trading properties (note 14) and the Group's shares in certain fellow subsidiaries.

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23 Due to bank

This represents outstanding balance of the credit facilities granted to the Group by a local Islamic bank in the form of overdraft facilities. The facilities carry an annual profit rate of 1.75% (2017: 1.75%) above the Central Bank of Kuwait discount rate.

The due to bank balance is secured against mortgage of certain investment properties (note 11).

24 Lease contracts liability

Lease contracts liability represents the accrued rental payable by 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.

During the year ended 31 December 2013, the Parent Company signed contracts for management, development, operation and maintenance of Souk Al-Kabeer and Souk Al-Kuwait properties for a period of ten years. Under the final agreements for those properties signed on 1 October 2013, the Parent Company shall pay aggregate annual rental amount of KD4,812,000 starting on 1 January 2015.

25 Accounts payable and other liabilities

	31 Dec 2018 KD	31 Dec 2017 KD
Financial liabilities		
Accounts payable	**3,757,664**	3,939,410
Accrued interests	**613,740**	1,382,336
Accrued expenses and leave	**585,701**	377,549
Kuwait Foundation for the Advancement of Sciences payable	**64,788**	32,988
National Labour Support Tax payable	**2,175,482**	2,902,562
Zakat payable	**378,184**	307,519
Dividends payable	**1,729,309**	1,756,573
Other liabilities	**533,309**	379,954
	9,838,177	11,078,891
Non-financial liabilities		
Advances received on sale of properties	**-**	2,889,744
Rent collected in advance	**1,194,144**	1,685,227
	1,194,144	4,574,971
	11,032,321	15,653,862

Notes to the consolidated financial statements

26 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Borrowings KD	Due to bank KD	Total 2018 KD
Balance at 1 January	**92,529,709**	**1,647,650**	**94,177,359**
Cash flows:			
• Repayment	**(1,630,022)**	**-**	**(1,630,022)**
• Proceeds	**27,556,591**	**2,751,743**	**30,308,334**
Non-cash items:			
• Foreign currency differences	**7,998**	**-**	**7,998**
31 December	**118,464,276**	**4,399,393**	**122,863,669**

	Borrowings KD	Due to bank KD	Total 2017 KD
Balance at 1 January	86,040,201	3,373,060	89,413,261
Cash flows:			
• Repayment	(482,421)	(1,725,410)	(2,207,831)
• Proceeds	7,015,225	-	7,015,225
Non-cash items:			
• Foreign currency differences	(43,296)	-	(43,296)
31 December	92,529,709	1,647,650	94,177,359

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27 Related parties transactions and balances

Related parties represent associates, directors and key management personnel of the Group, 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 2018	31 Dec 2017
	KD	KD
Consolidated statement of financial position:		
Due from related parties	**2,019,328**	1,304,124
Due to related parties	**696,671**	707,666
Advance payments for purchase of investments	**8,837,524**	-
Purchase of investment properties	**5,540,280**	-
Purchase of investment in associate	**-**	10,000

Financial assets at fair value through other comprehensive income amounting to KD523,678 (available for sale investments KD2,511,325 in 2017) are managed by a related party.

	Year ended	Year ended
	31 Dec 2018	31 Dec 2017
	KD	KD
Consolidated statement of profit or loss:		
Real estate operating expenses	**491,825**	458,444
General and administrative expenses	**255,000**	230,000
Key management compensation:		
Salaries and short-term benefits	**113,279**	143,077
Employees' end of service benefits	**4,125**	26,000

28 Proposed dividends and annual general assembly

Subsequent to the date of the consolidated statement of financial position, the board of directors have proposed not to distribute any cash dividend and distribute 5% bonus shares form treasury shares for the shareholders of the Parent Company without an increase in share capital or increase number of shares issued for the year ended 31 December 2018. Furthermore, the board of directors have proposed to distribute directors' remuneration of KD40,000 for the year then ended. This proposal is subject to the approval of the general assembly and the regulatory authorities.

Annual General Assembly of the shareholders of the Parent Company held on 28 May 2018 approved the consolidated financial statements for the year ended 31 December 2017 without distributing any dividends to shareholders or remuneration to directors.

Notes to the consolidated financial statements

29 Segmental analysis

The Group operates its activity in real estate and investment segments. The segmental analysis of total income and net profit for the activities are as follows:

	Real estate KD	Investment KD	Unallocated KD	Total KD
Year ended 31 December 2018:				
Income	10,522,472	2,277,500	1,711,579	14,511,551
Profit/(loss) for the year	5,126,205	2,277,500	(656,253)	6,747,450
As of 31 December 2018:				
Total assets	184,219,375	62,257,479	24,418,169	270,895,023
Total liabilities	126,071,665	11,032,319	1,482,568	138,586,554
Net assets	58,147,710	51,225,160	22,935,601	132,308,469
Year ended 31 December 2017:				
Income/(loss)	10,182,942	(86,857)	1,694,992	11,791,077
Profit/(loss) for the year	4,208,491	(2,266,144)	280,599	2,222,946
As of 31 December 2017:				
Total assets	177,136,837	61,401,237	11,302,658	249,840,732
Total liabilities	99,451,648	15,653,861	1,416,963	116,522,472
Net assets	77,685,189	45,747,376	9,885,695	133,318,260

30 Risk management objectives and policies

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

The board of director's policies for reducing each of the risks are discussed below.

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

The most significant financial risks to which the Group is exposed to are described below.

30.1 Market risk

(a) Foreign currency risk

The Group mainly operates in the GCC, other Middle Eastern countries Europe and USA, and thus is exposed to foreign currency risk arising from various foreign currency exposures. 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.

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30 Risk management objectives and policies (continued)

30.1 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 2018 KD	31 Dec 2017 KD
United States Dollar	**(1,311,410)**	2,533,875
Euro	**1,668**	304,254
GBP	**24,801**	25,301
UAE Dirham	**(3,263,260)**	214,251

The following table details the Group's sensitivity to a 2% (2017: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the yearend for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and a negative number indicates decrease in profit. There is no impact on the Group's other comprehensive income. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	31 Dec 2018 KD	31 Dec 2017 KD
Results for the year	**(90,964)**	61,554

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.

Notes to the consolidated financial statements

30 Risk management objectives and policies (continued)

30.1 Market risk (continued)

(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 is exposed to interest rate risk with respect to term deposits, borrowing and due to banks.

The following table illustrates the sensitivity of the results for the year to a reasonably possible change in interest rates of +100 bps (1%) and –100 bps (1%) (2017: +100 bps (1%) and –100bps (1%)) with effect from the beginning of the year. The calculations are based on the Group's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	31 Dec. 2018		31 Dec. 2017	
	+ 1 %	**-1 %**	+ 1 %	-1 %
	KD	**KD**	KD	KD
Results for the year	**(1,199,018)**	**1,199,018**	(896,333)	896,333

(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 profit or loss 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 Group.

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 consolidated financial statements 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% (2017: 5%) higher, the effect on the result for the year and equity would have been as follows.

	Result for the year		Equity	
	31 Dec. 2018	31 Dec. 2017	**31 Dec. 2018**	31 Dec. 2017
	KD	KD	**KD**	KD
Financial assets at fair value through profit or loss	**1,218,725**	1,100	**-**	-
Available for sale investments	**-**	-	**-**	2,326,380
Financial assets at fair value through other comprehensive income	**-**	-	**1,598,194**	-
	1,218,725	1,100	**1,598,194**	2,326,380

If prices of financial securities had been 5% (2017: 5%) lower, the effect on the results for the year and equity would have been equally the reverse as disclosed above.

Notes to the consolidated financial statements

30 Risk management objectives and policies (continued)

30.2 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 recognised at the consolidated financial position date, as summarized below:

	31 Dec. 2018	31 Dec. 2017
	KD	KD
Financial assets at fair value through other comprehensive income	**2,086,825**	-
Available for sale investments	**-**	26,666,413
Due from related parties	**2,019,328**	1,304,124
Accounts receivable and other assets	**3,201,870**	3,224,978
Financial assets at fair value through of profit or loss	**7,077,902**	22,006
Cash and cash equivalents	**2,961,865**	4,600,827
	17,347,790	35,818,348

The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

The credit risk for bank balances is considered negligible, since the counterparties are financial institution with high credit quality.

Information on other significant concentrations of credit risk is set out in note 28.4.

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30 Risk management objectives and policies (continued)

30.3 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, the Group's management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

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

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities is as follows:

31 December 2018	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Liabilities				
Borrowings	**-**	**6,892,877**	**111,571,399**	**118,464,276**
Lease contracts liability	**-**	**3,207,996**	**-**	**3,207,996**
Provision for employees' end of services benefits	**-**	**-**	**785,897**	**785,897**
Due to related parties	**-**	**696,671**	**-**	**696,671**
Accounts payable and other liabilities	**-**	**9,838,177**	**-**	**9,838,177**
Due to bank	**4,399,393**	**-**	**-**	**4,399,393**
	4,399,393	**20,635,721**	**112,357,296**	**137,392,410**
31 December 2017				
Liabilities				
Borrowings	-	1,995,863	92,193,363	94,189,226
Lease contracts liability	-	5,274,288	-	5,274,288
Provision for employees' end of services benefits	-	-	709,297	709,297
Due to related parties	-	707,666	-	707,666
Accounts payable and other liabilities	-	11,078,891	-	11,078,891
Due to bank	1,721,794	-	-	1,721,794
	1,721,794	19,056,708	92,902,660	113,681,162

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30 Risk management objectives and policies (continued)

30.3 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities. Except for financial assets at fair value through other comprehensive income and investment properties, the maturities of assets and liabilities have been determined on the basis of the remaining period from the reporting date to the contractual maturity date. The maturity profile for financial assets at fair value through other comprehensive income and investment properties is determined based on management's planned exit dates.

The maturity profile of assets and liabilities at 31 December 2018:

	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Assets				
Property and equipment	-	-	1,985,775	1,985,775
Investment properties	-	-	174,739,425	174,739,425
Capital work in progress	-	221,864		221,864
Financial assets at fair value through other comprehensive income	-	-	31,963,886	31,963,886
Investment in associates	-	-	5,919,095	5,919,095
Trading properties	-	9,258,085	-	9,258,085
Due from related parties	-	2,019,328	-	2,019,328
Accounts receivable and other assets	-	3,412,677	-	3,412,677
Advances payments for purchase of investments		14,037,524	-	14,037,524
Financial assets at fair value through profit and loss	-	24,374,499	-	24,374,499
Cash and cash equivalents	2,961,865	-	-	2,961,865
	2,961,865	53,323,977	214,609,181	270,895,023
Liabilities				
Borrowings		6,892,877	111,571,399	118,464,276
Lease contracts liability		3,207,996	-	3,207,996
Provision for employees' end of service benefits			785,897	785,897
Due to related parties		696,671	-	696,671
Accounts payable and other liabilities		11,032,321	-	11,032,321
Due to bank	4,399,393	-	-	4,399,393
	4,399,393	21,829,865	112,357,296	138,586,554
Net liquidity gap	(1,437,528)	31,494,112	102,251,885	132,308,471

Notes to the consolidated financial statements

30 Risk management objectives and policies (continued)

30.3 Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2017:

	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Assets				
Property and equipment	-	-	2,148,812	2,148,812
Investment properties	-	-	164,278,166	164,278,166
Capital work in progress	-	-	457,170	457,170
Available for sale investments	-	-	57,756,230	57,756,230
Investment in associates	-	-	3,623,001	3,623,001
Trading properties	-	12,401,500	-	12,401,500
Due from related parties	-	1,304,124	-	1,304,124
Accounts receivable and other assets	-	3,248,896	-	3,248,896
Financial assets at fair value through profit and loss	-	22,006	-	22,006
Cash and cash equivalents	4,600,827	-	-	4,600,827
	4,600,827	16,976,526	228,263,379	249,840,732
Liabilities				
Borrowings	-	1,905,000	90,624,709	92,529,709
Lease contracts liability	-	5,274,288	-	5,274,288
Provision for employees' end of service benefits	-	-	709,297	709,297
Due to related parties	-	707,666	-	707,666
Accounts payable and other liabilities	-	15,653,862	-	15,653,862
Due to banks	1,647,650	-	-	1,647,650
	1,647,650	23,540,816	91,334,006	116,522,472
Net liquidity gap	2,953,177	(6,564,290)	136,929,373	133,318,260

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30 Risk management objectives and policies (continued)

30.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2018 and 2017 are as follows:

	Kuwait KD	Other Middle Eastern Countries KD	United States, Europe and other countries KD	Total KD
As of 31 December 2018				
Financial assets at fair value through other comprehensive income	**20,422,928**	**147,903**	**11,393,055**	**31,963,886**
Due from related parties	**2,019,328**	**-**	**-**	**2,019,328**
Accounts receivable and other assets	**2,763,709**	**-**	**438,161**	**3,201,870**
Financial assets at fair value through profit or loss	**3,426,985**	**142,598**	**20,804,916**	**24,374,499**
Cash and cash equivalents	**1,696,961**	**305,740**	**959,164**	**2,961,865**
	30,329,911	**596,241**	**33,595,296**	**64,521,448**
As of 31 December 2017				
Available for sale investments	24,278,885	1,759,599	31,717,746	57,756,230
Due from related parties	1,304,124	-	-	1,304,124
Accounts receivable and other assets	2,862,864	69,242	292,872	3,224,978
Investments at fair value through profit or loss	3,927	-	18,079	22,006
Cash and cash equivalents	3,612,959	682,604	305,264	4,600,827
	32,062,759	2,511,445	32,333,961	66,908,165

31 Fair value measurement

31.1 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).

Notes to the consolidated financial statements

31 Fair value measurement (continued)

31.2 Fair value measurement of financial instruments

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 2018 KD	31 Dec 2017 KD
Financial assets:		
At amortised cost:		
Due from related parties	**2,019,328**	1,304,124
Accounts receivable and other assets	**3,201,870**	3,224,978
Cash and cash equivalents	**2,961,865**	4,600,827
At fair value:		
Financial assets at fair value through profit or loss	**24,374,499**	22,006
Financial assets at fair value through other comprehensive income	**31,963,886**	-
Available for sale investments:		
Available for sale investments – at fair value	**-**	46,527,607
Available for sale investments – at cost	**-**	11,228,623
	64,521,448	66,908,165
Financial liabilities:		
Financial liabilities at amortised cost		
Borrowings	**118,464,276**	92,529,709
Lease contracts liability	**3,207,996**	5,274,288
Provision for employees' end of service benefits	**785,897**	709,297
Due to related parties	**696,671**	707,666
Accounts payable and other liabilities	**9,838,177**	11,078,891
Due to bank	**4,399,393**	1,647,650
	137,392,410	111,947,501

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortized 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.

Notes to the consolidated financial statements

31 Fair value measurement (continued)

31.2 Fair value measurement of financial instruments (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 2018

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets				
Financial assets at fair value through profit or loss:				
Local quoted securities	14,186	-	-	14,186
Local unquoted securities	-	-	370,246	370,246
Foreign quoted securities	3,224	-	-	3,224
Foreign unquoted securities	-	-	16,910,049	16,910,049
Debt instruments	-	-	7,017,894	7,017,894
Managed funds	-	58,900	-	58,900
Financial assets at fair value through other comprehensive income:				
Local quoted securities	9,156,652	-	-	9,156,652
Local unquoted securities	-	-	13,395,347	13,395,347
Foreign unquoted securities	-	-	7,847,625	7,847,625
Debt instruments	-	-	1,564,255	1,564,255
	9,174,062	58,900	47,105,416	56,338,378

31 December 2017

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets at fair value through profit or loss:				
Quoted securities	22,006	-	-	22,006
Available for sale investments:				
Local quoted securities	14,269,766	-	-	14,269,766
Local unquoted securities	-	-	11,780,492	11,780,492
Foreign unquoted securities	-	-	10,465,513	10,465,513
Debt instruments	-	-	9,952,936	9,952,936
Managed funds	-	58,900	-	58,900
	14,291,772	58,900	32,198,941	46,549,613

Notes to the consolidated financial statements

31 Fair value measurement (continued)

31.2 Fair value measurement of financial instruments (continued)

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out below.

Financial assets at fair value through other comprehensive income:
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 maximising the use of market-based information.

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Certain unquoted equity securities are valued based on book value and price to book multiple method using latest financial statements available of the investee entities.

Other unquoted equity securities are valued using cash flow projections based on financial estimates approved by senior management. The growth rates used to arrive at the terminal value ranged from 1% to 3%. Further the revenue growth projections are based on the assessment of the future business growth.

Key assumptions used in fair value calculations
The calculation of fair value is most sensitive to the following assumptions:

- Discount rates;
- Growth rates used to extrapolate cash flows beyond the budget period;
- Local inflation rates.

Discount rates
Discount rates are calculated by using risk free rate, equity market risk premium, beta factor and company specific risk premium (alpha factor).

Market share assumptions
These assumptions, as well as use of industry data for growth rates, are important as the entity's relative position to its competitors might change over the budget period.

Projected growth rates and local inflation rates
Assumptions are based on references from published industry research reports.

Investments in funds have been valued based on Net Asset Value (NAV) of the fund provided by the fund manager.

Gains or losses recognised in the consolidated statement of profit or loss for the year are included in profit on sale of investment at fair value through other comprehensive income.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

There were no changes to the valuation techniques during the year.

Notes to the consolidated financial statements

31 Fair value measurement (continued)

31.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements

The Group measurement of financial assets and liabilities classified in level 3 uses valuation techniques 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 2018 KD	31 Dec 2017 KD
Opening balance	**32,198,941**	29,592,230
Additions	**11,764,088**	-
Sales	**(486,528)**	(389,157)
Purchases	**5,860,436**	4,398,059
Transfer from level 1	**-**	1,463,296
Change in fair value	**(2,231,521)**	(2,803,626)
Foreign currency	**-**	(61,861)
Closing balance	**47,105,416**	32,198,941

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

31.3 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2018 and 31 December 2017:

	Level 1 KD	**Level 2 KD**	**Level 3 KD**	**Total KD**
31 December 2018				
Investment properties				
- in Kuwait	**-**	**-**	**148,421,800**	**148,421,800**
- in GCC & other countries	**-**	**-**	**26,317,625**	**26,317,625**
	-	**-**	**174,739,425**	**174,739,425**

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2017				
Investment properties				
- in Kuwait	-	-	144,646,200	144,646,200
- in GCC & other countries	-	-	19,631,966	19,631,966
	-	-	164,278,166	164,278,166

The fair values of all investment properties have been determined based on valuations obtained from independent and accredited valuers for each investment property, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. As of 31 December 2018 and 2017, for the valuation purpose, the Group has selected the lower value of the valuations obtained for each investment property.

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31 Fair value measurement (continued)

31.3 Fair value measurement of non-financial assets (continued)

Properties

The fair values of the properties that have been determined based on the fair value provided by independent and accredited valuers who have valued the investment properties using income approach which capitalises the monthly estimated rental income stream, net of projected operating costs using a discount rate derived from the market yields. When actual rent differs materially from estimated rents, adjustments have been made to the estimated rental value. When using the estimated rental stream approach, adjustments to actual rental are incorporated for factors such as current occupancy levels, the terms of in-place leases, expectations for rentals from future leases and unlicensed rented areas.

Lands

The fair values of the lands that have been determined based on fair values provided by an independent and accredited valuers who has valued the investment properties using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

Further information regarding the level 3 fair value measurements is set out in the table below:

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Buildings	Estimated rental stream approach	Monthly economic rental value	KD 403 to KD2,110 (2017: KD340 to KD2,100)	Fair value increases if economic rental value increases, and vice versa.
Lands	Market comparison approach	Estimated market price (per sq ft.)	KD14 to KD269 (2017: KD8 to KD125)	Higher the price per square meter, higher the fair value

Level 3 Fair value measurements

The Group measurement of investment properties classified in level 3 uses valuation techniques inputs that are not based on observable market data. The investment properties within this level can be reconciled from beginning to ending balances as follows;

	31 Dec 2018 KD	31 Dec 2017 KD
Opening balance	**164,278,166**	164,728,737
Additions	**10,113,489**	247,189
Disposals sale value	**-**	(1,152,244)
Gain or losses recognised in consolidated statement of profit or loss on:		
- Sale of investment properties	**-**	(20,076)
- Changes in fair value	**347,770**	474,560
Closing balance	**174,739,425**	164,278,166

Notes to the consolidated financial statements

32 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.

The capital structure of the Group consists of the following:

	31 Dec 2018 KD	31 Dec 2017 KD
Borrowings (Note 22)	**118,464,278**	92,529,709
Due to bank	**4,399,393**	1,647,650
Less:		
Cash and cash equivalents (note 18)	**(2,961,865)**	(4,600,827)
Net debt	**119,901,804**	89,576,532
Equity	**132,308,469**	133,318,260
Net debt to equity ratio	**90.62%**	67.19%

33 Contingent liabilities and commitments

Contingent liabilities represent letters of guarantee and capital commitments at the consolidated financial position date are as follows:

	31 Dec 2018 KD	31 Dec 2017 KD
Issued letters of guarantee	**4,084,374**	4,084,374
Capital commitments on lease contracts	**-**	1,541,150
Purchase of investments	**24,362,476**	-
	28,446,850	5,625,524

Capital commitments on lease contracts arising on the agreements signed with the Ministry of Finance – State Property Management Department (Note 24).

Notes to the consolidated financial statements

34 Business combination

During the year, the board of directors of the Parent Company announced its intention to make non-cash acquisition of shares of International Resorts Company – KPSC ("IRC"), a related party. The Parent Company obtained approval of the Capital Markets Authority for the non-cash acquisition offer to acquire all outstanding shares of the IRC by issuing a maximum of 64,403,643 shares of the Parent Company which was also approved by the extraordinary general assembly of the shareholders of the Parent Company held on 5th July 2018.

The process of acquiring the IRC's shares commenced from 6 September 2018 until 31 October 2018. However, the CMA approved the Parent Company's request for extending the period until 31 December 2018.

The Parent Company acquired 89,345,319 share representing 57.8% of the share capital of IRC. Accordingly, subsequent to the year end, the Parent Company increased its share capital to KD94,736,506 by issuing 40,652,120 share of 100 fils each. The documentation in commercial register on share capital increase was completed on 11 March 2019 (effective date of acquisition). The Group's ownership in IRC increased from 10.9% as of 31 December 2018 to 68.7%. Therefore, the Group reclassified this investee from investment at FVTOCI to investment in subsidiary since management believed the Group has the power to control the investee. This transaction will be reflected in the consolidated condensed financial information of the Group for the three months period ended 31 March 2019.

35 Comparative amounts

Certain other comparative amounts have been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year.