ANNUAL REPORT 2017

AQARAT
عقارات

شركة عقارات الكويت ش.م.ك.ع
Kuwait Real Estate Company K.P.S.C.

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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

Contents

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

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 behalf of my colleagues’ members of the Board of Directors, I am pleased to present to you the annual financial report of (Aqarat) Kuwait Real Estate Company for the fiscal year ended on 31 December, 2017.

Financial Performance

As a result of the management’s efforts to achieve it’s desired objectives in accordance with the company’s strategy, I’m pleased to announce that Kuwait Real Estate Company achieved the profit of KD 2.2 million (equivalent to 2.46 fils per share) compared to profit of KD4.8 million in 2016 (equivalent to 5.32 fils per share), resulting in an increase of book value to 147 fils per share.

Despite the current difficulties facing the real estate sector, the rental income has increased by 5.6% reaching KD17.1 million in 2017 compared to KD16.1 million in 2016.

Also the Shareholders Equity increased to KD133.3 million compared to KD131.9 million in 2016.

Company's Performance

At the Local level

In 2017, the company has completed all renovation works for both Souk Al Kuwait and Souk Al Kabeer buildings as per the agreement signed with the Ministry of Finance.

Also, studies, designs, and pricing stages for the construction of the new investment towers and hotel located in Riggae have been completed and work is expected to commence during the second quarter of 2018.

These projects will be added to the company's income generating real estate portfolio once completed.

On the International level

In 2017, the Company has expanded and increased its real estate investments in the United States, where the company owns several investment properties distributed between income generating and development.

The company periodically monitors and evaluates the global market conditions and evaluate the investment options available in order to achieve the company's objectives.

Future Plans

The company's Board of Directors have set specific future goals to achieve the greatest return to shareholders through the investment of income generating assets and development assets in the State of Kuwait and abroad.

The company is currently diversifying its income through its presence in different markets to mitigate and avoid the risk and markets volatility.

In Conclusion

I would like to take this opportunity to express my sincere and profound recognition and appreciation to the shareholders and the Board of Directors for their continuous support and contribution to the development of the company. My sincere gratitude goes out to all company employees for their utmost dedication and hard work.

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.

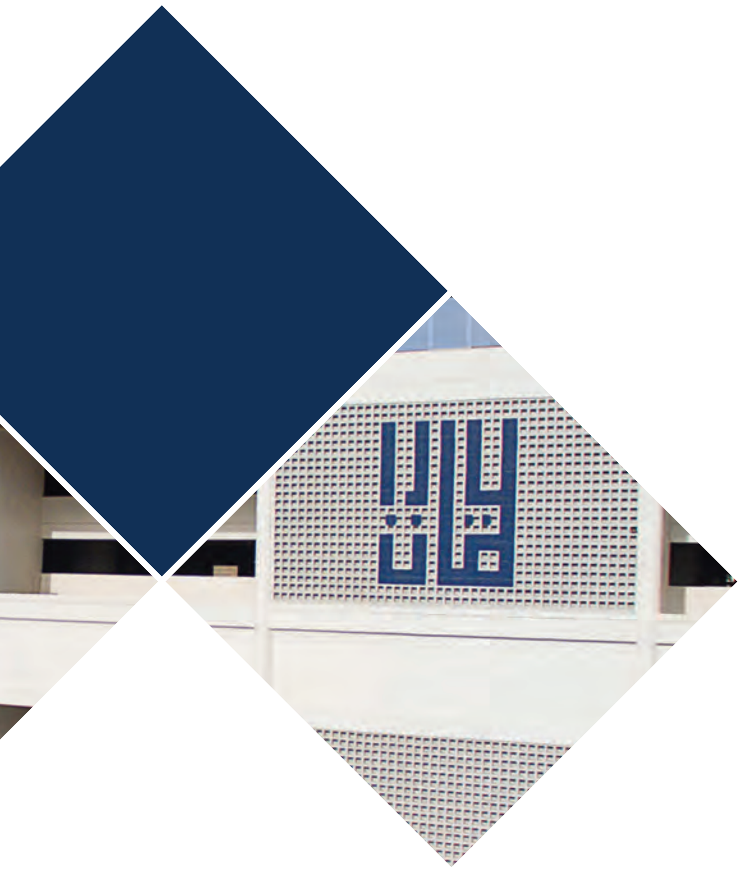
History: We honor the company's storied past as a pioneer in the local real estate market by constantly striving to adhere to the highest of standards set forth by our predecessors. We recognize the innovation that led to the company's growth and standing as one of the premier real estate companies in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

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

General Governance Report

The Board of Directors of Kuwait Real Estate Company (Aqarat) is always keen to safeguard the interests of shareholders, customers and other stakeholders through its decisions and actions. As it also seeks to set the highest standards and best practices for sound governance, and ensures that internal control systems are applied in accordance with the best practices. In addition to that, the Board emphasizes the concept of trust in the company's management of the various resources through preserving, developing and managing them cautiously. The Board also ensures protection of the relevant parties and commitment to the company's relevant policies and procedures. Moreover, it supervises these operations and ensures that disclosure is made to shareholders clearly and with utmost transparency.

The Board is accountable to the general assembly of shareholders and is entrusted with the responsibility of preserving the interests of the company, developing its business and achieving its vision, mission, strategy and objectives to achieve the aspirations of the shareholders. The Board also avoids conflicts of interests giving priority to the company in all times.

The company defines governance as the system through which the company's business is directed, managed and monitored from the highest level and through which its capabilities are strengthened to achieve long term strategic objectives, and so, by implementing the company's policies and procedures and complying with legal and regulatory requirements.

The Board believes that an appropriate corporate governance system is critical as it maintains the integrity of the business and enhances investors' confidence therein. Accordingly, the Board constantly seeks to improve the effectiveness and performance of the governance system by monitoring the performance of the Board committees. Therefore, during the year ended December 31, 2017, the company has followed the rules and regulations of Corporate Governance issued by the Capital Markets Authority in view of implementing the company's philosophy to achieve the highest standards of responsibility, transparency and integrity in conducting and performing its business with a commitment to implement all relevant laws and regulations.

To this end, the company has developed a series of guidelines and best practices to enhance transparency and disclosure in a timely and accurate manner with regard to its financial statements, operational performance, management, and governance system. During 2017, the Company updated several policies to help the Company adopt best governance practices

General Governance Report

Board of Directors Formation:

The formation of the Board was characterized by a structure that complies with the nature and activity of the company, provided that the majority of the members of the Board of Directors are non-executive members. The company has also separated between the positions of the Chairman of the Board and the Chief Executive Officer where they shall not be related in any way that would affect the independence of their decisions. The Board has sufficient members that allow it to form the appropriate number of relevant committees. Board committees consist of the Nomination and Remuneration Committee, Audit Committee and Risk Committee. Each of these committees shall have the charters and provisions defining their scope of work, powers, responsibilities and duties.

The Board consists of eight members elected by the General Assembly of the Company for a period of three years. The structure of the Board is collectively diverse in terms of expertise, qualifications and knowledge in the company's field, including knowledge of legal aspects, governance, internal control and risk management, financial and economic management, as well as strategic planning aspects.

	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 42 years of experience in investment, finance and economy.	02/04/2015
2	Talal Jassim Al-Bahar	(Deputy Chairman) Non-executive member	Bachelor of Business Administration	More than 13 years of experience in the field of investment and real estate development.	11/06/2017
3	Marzouq Jassim Al-Bahar	Non-executive member	Bachelor of Business Studies	More than 6 years of experience in marketing, development and business administration.	16/08/2016
4	Ahmed Faisal Al-Qatami	Independent member	Bachelor of Business Administration	More than 16 years of experience in financing and banking	02/04/2015
5	Mishari Abdullah Al-Dakhil	Independent member	Bachelor of Business Management	More than 26 years of experience in finance and commercial laws	02/04/2015
6	Mishari Ahmed Al-Ajeel	Non-executive member	Bachelor of Finance and Financial Institutions	More than 9 years of experience in investment, assets and portfolio management	02/04/2015
7	Mohamed Essam Al-Bahar	Non-executive member	Bachelor of Business Administration	More than 7 years of experience in management and development	02/08/2016
8	Hamed Mohamed Al-Aiban	Non-executive member	Bachelor of Business Administration	More than 32 years of experience in financial affairs, investments, banking and management	28/07/2016
	Amal Mohammad Al-Ashab	Secretary	Bachelor of administrative and financial sciences and banking sciences	More than 25 years of experience in secretarial work with the executive management	03/08/2017

General Governance Report

Briefing on the meetings of the Board of Directors of Kuwait Real Estate Company, through the following statement:

Meetings held by the Board during 2017:

Name of the member	First meeting held on 31/01/2017	Second meeting held on 23/03/2017	Third meeting held on 15/05/2017	Fourth meeting held on 22/06/2017	Fifth meeting held on 03/08/2017	Sixth meeting held on 10/09/2017	Seventh meeting held on 14/11/2017	Number of meetings
Ibrahim Saleh Al-Therban Chairman	√	√	√	√	√	√	√	7
Talal Jassim Al-Bahar Deputy Chairman				√	√	√	√	4
Marzouq Jassim Al-Bahar Member	√	√	√	√	√	√	√	7
Hamed Mohamed Al-Aiban Member	√	√	√	√	√	√	√	7
Khaled Saeed Esbaitah Member	√	√	√	Replacement				3
Ahmed Faisal Al-Qatami Member		√	√	√	√	√	√	6
Mishari Abdullah Al-Dakhil Member	√	√	√	√	√	√	√	7
Mohamed Essam Al-Bahar Member	√	√	√	√	√			5
Mishari Ahmed Al-Ajeel Member	√	√	√	√	√	√	√	7
Rami Khaled Ali Former Secretary	√	√	√	√				4
Amal Mohammad Al-Ashab Secretary					√	√	√	3

- The representative of Marasi Al Ofoq General Trading and Contracting Company in the Board of Directors Mr. Khaled Saeed Esbaitah was replaced with Mr. Talal Jassim Al-Bahar on 11 June 2017.
- Formation of the Board of Directors was revised where Mr. Talal Jassim Al-Bahar became the Vice Chairman of the Board replacing Mr. Marzouq Jassim Al-Bahar on 03 August 2017.
- Mrs. Amal Mohammad Al-Ashab was appointed a Secretary of the Board replace Mr. Rami Khaled Ali on 03 August 2017.

General Governance Report

Taking, coordinating and saving the minutes of the Board's meetings:

The Secretary of the Board established a special register for the minutes of the company Board's meetings, and special registers for the minutes of the Board committee's 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 the members 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.

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 be 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 the 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 situation of the Company.
2. Issuing annual estimated budgets, approving quarterly and annual financial statements, and supervising company's major capital expenditure, asset ownership and disposal.
3. Establishing effective communication channels to enable shareholders' access to periodic and continuous information on the Company's activities and any other essential developments therein.
4. Ensuring that all policies and regulations approved by the company are implemented with utmost transparency and clearly, 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.

General Governance Report

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 activities of the company are carried out by the Executive Management under the supervision and direction of the company's CEO. 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 2017:

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. Following up on the implementation of the company's activities with the Executive Management and holding periodic meetings.
2. 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.
3. Appointing an independent auditor to evaluate and review the Internal Control Regulations applied in the company.
4. Holding regular meetings with those responsible for the internal audit departments, following up the results of their work, and discussing all the remarks of regulators.
5. Supervising the activities of the Nomination and Remuneration Committee regarding the self-assessment process of members of the Board of Directors and Executive Management.
6. Issuing the annual estimated budget, and approving the quarterly and annual financial statements.
7. Attending training workshops.

General Governance Report

Committees Derived from the Board of Directors:
First: Audit Committee

The Committee works on establishing the culture of compliance and enhancing the efficiency of performance within the company, as well as ensuring the adequacy and effectiveness of applied internal control regulations.

1	Marzouq Jassim Al-Bahar	Head of Committee	Number of meetings
2	Ahmed Faisal Al-Qatami	Independent Member	5
3	Mishari Abdullah Al-Dakhil	Independent Member	
Amal Mohammad Al Ashab		Secretary	

Tasks of the Committee:

1. Review the quarterly and annual financial statements and report of the external auditor and preliminary approving them before submitting them 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 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

Second: Nominations and Remunerations Committee

The Committee works on enhancing the efficiency of work and production by contributing to the selection of the necessary competencies for the Board of Directors and the Executive Management, and preparing recommendations regarding the development of the remunerations and compensations policy for the Board members and senior executive officers of the Company.

Formation of the Committee:

1	Ibrahim Saleh Al-Therban	Head of Committee	Number of meetings
2	Mishari Abdullah Al-Dakhil	Independent Member	2
3	Mohamed Essam Al-Bahar	Non-Executive Member	
Amal Mohammad Al Ashab		Secretary	

Tasks of the 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 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

Incentives and Remunerations Scheme at Kuwait Real Estate Company:

1. The amount of remuneration shall be determined and approved by the Board of Directors of the Company upon the recommendation of the Remuneration Committee based on the procedures set by the remuneration policy, the performance criteria and the company's success in achieving its objectives.
2. The Nomination and Remunerations Committee submits the a proposal regarding the remuneration of the Board members provided that it is subject to preliminary approval by the Board and final approval by the General Assembly of the Company.
3. The annual remunerations proposal is prepared by the Human Resources Department based on the specific allocations and evaluation of the company's employees.
4. Date of remuneration payment shall be determined, in case they are approved, by the higher management.
5. The determination of remuneration amount depends on the evaluation of the employee.
6. Evaluation results are submitted to the Nomination and Remuneration Committee for review and approval.

Remunerations, benefits and privileges granted to the Board of Directors and Executive Management for the year 2017:

Remuneration Type	Board of Directors	Executive Management
Fixed remuneration (including wages and main salaries)	0	374,220
Variable remuneration	0	248,958
End of service remuneration	0	100,304

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

General Governance Report

Third: Risk Management Committee:
The Committee analyzes the nature and size of the risks facing the Company's activities to minimize them and ensure the soundness and integrity of financial reports.

Formation of the Committee:

1	Ahmed Faisal Al-Qatami	Head of Committee	Number of meetings
2	Marzouq Jassim Al-Bahar	Non-Executive Member	4
3	Mohamed Essam Al-Bahar	Non-Executive Member	
Amal Mohammad Al Ashab		Secretary	

Tasks of the Committee:

1. Preparing and reviewing risk management strategies and policies before they are approved by the Board of Directors 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.

Types of risks that may face the Company:

Strategic Risks: This type of risks focuses on strategic and business efficiency risks, which are the risks associated with the implementation of the Company's overall strategies that threaten the achievement of long-term objectives and strategies, such as the likelihood of not adopting and implementing a clear risk strategy and the possibility of not providing the financial, technical and human resources necessary for the management of the company's business and supervisory functions.
Operational risk: This type of risks focuses on all types of operational risks, including inadequate internal control regulations, technological risks, inefficiency risks, and / or the ineffectiveness of processes and procedures in achieving the Company's overall objectives.

General Governance Report

Undertaking to the Authenticity and Integrity of Financial Reports:

Both the Board of Directors and the Executive Management have submitted undertakings, in writing, confirming authenticity and integrity of the financial reports that have been prepared, and that they cover all the financial aspects of data and operational results. The financial reports are prepared in accordance with International Financial Reporting Standards.

Internal Control Regulations and Risk Management

The company relies on a set of control systems and regulatory rules covering all activities and management 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 responsibilities and determines the structural relations authorities with unambiguous clarity. It also reflects the company's strategy and investment structure. The Board of Directors has delegated the Company's Executive Management to take over the Company's day-to-day operations, under the chairmanship of the Chief Executive Officer through a written authorization of the financial and operating authorities. All financial transactions that may not be delegated to the Executive Management or Executive Chairman and which require approval of the Board of Directors have been clarified.

The Company's internal control procedures include administrative and accounting control and the company's internal control system. Such procedures are periodically applied, including proper the identification of powers and responsibilities, complete separation of duties, non-conflict of interest, and double examination and control.

The Company has contracted with an independent and approved audit firm (other than the external auditor) to conduct an internal control report evaluation and review and prepare a report on this matter (Internal Control Review). The report will be submitted to the Capital Markets Authority.

The internal audit activity structurally reports to the Audit Committee derived from the Board of Directors. Its work has been assigned to a third party. This entity ensures the integrity of the internal control procedures that target all operations of the Company, protect its properties, and ensure the validity and accuracy of the financial statements according to accounting standards and compliance with the applicable laws and regulations.

Risk management is responsible for identifying, measuring, monitoring and limiting risks and preparing periodic risk reports. The risk management function is independent from other units while allowing this department to access all activities to understand the nature of its work or to request specific data for proper risk assessment and monitoring.

The Company uses various methods to deal with the types of risks that may face the Company's business through risk transfer, risk sharing, risk rejection or accepting controllable risks, as well as establishing the risk mitigation plans according to the objectives, returns and cost criteria of the risk management process.

General Governance Report

A compliance officer has been appointed in the company.
The company sought to provide the best competencies at the local level to carry out the implementation of internal control procedures efficiently and effectively.

The company relies on a set of advanced systems that rely on international standards, effectively contribute to internal control and provide accurate and transparent information.

Professional Conduct and Moral Values

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 company has developed a business charter that includes the standards and indicators of professional conduct to implement the company's objectives according to these standards thus, contributing to the performance of tasks to the fullest. The Board of Directors set policies and mechanisms that aim at reducing conflicts of interest and govern dealing therewith.

Disclosure and Transparency in an accurate and timely manner

The Company complied with the regulated instructions to conduct the disclosure of significant information and the announcement mechanism which also meets the Company's legal and ethical requirements. The Company has was also keen to ensure the timely disclosure of material information relating to the Company's business
The Company prepared a register that includes all information contained in the disclosures received under the book Number 10 issued by the Capital Market Authority and commits to amend this register according to the information received. Any person may view this register during official working hours.

The Company has appointed a person to be in charge of responding to the Authority's queries on disclosure and transparency.

The Company has committed to provide the Stock Exchange with the required data and information at the time of listing and with any changes or updates that have occurred (information about the company - members of the Board of Directors and the Executive Management - auditor - disclosure statements of the major shareholders - a list of all listed subsidiaries and associate companies).

The Company undertakes to maintain absolute confidentiality regarding internal information as it shall take all measures to ensure that the handling of such information is subject to confidentiality. The Company keeps a list of the names of insiders in the company, and it has an acknowledgment from insiders that they possess internal information about the company and its customers and that they are aware of their inclusion in the insiders list in the company, and of their commitment to the legal effects of their knowledge of the internal information and that they are aware of the penalties resulting from misuse of this information; in addition to that, they undertake to inform the company of any transactions they are executing on the securities of the company, the parent company or its subsidiaries.

The Company shall keep a record of the disclosures and notifications of insiders of all the shares owned by them.

General Governance Report

The Company discloses the material information. In general, any significant changes (increase or decrease) in the Company's assets and liabilities, revenues and expenses as well as any change in the composition of the members of the Board of Directors, the Executive Management, or the External Auditor, except for the disclosure of the effects that cannot be expected or measured; in this case, the Company shall provide the Board with its justifications for cases excluded from the provision of this disclosure. At the beginning of each year, the company discloses its shareholders who represent 5% or more of the company's capital.

The company has an investment and acquisition department that organizes investors' affairs and provides them with the necessary data, information and reports. This department is completely independent.

The company is expanding its use of information technology to communicate with shareholders and stakeholders. We have created a special section for corporate governance on the website that offers the latest information that helps shareholders and investors exercise their rights and evaluate the company's performance.

Respect for Shareholders Rights

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.

The company maintains a special register with Kuwait Clearing Agency that includes the names, nationality and 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.

The company shall invite 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 enough time to peruse 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.

General Governance Report

Role of Stakeholders

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. The company is also 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.

Promoting and improving performance

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 the members of the Board and the Executive Management, the company contracted with more than one local consulting company to provide technical support for members of the Board 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.

During the year 2017, members of the Board of Directors and Executive Management attended training workshops.

General Governance Report

Importance of social responsibility

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. During 2017, the company:

1. Hosted the Kuwaiti Blood Bank in Souq Al-Kuwait Building.
2. Contributed to the ceremony honouring the outstanding and talented people of Kuwait.
3. Donated to the Kuwaiti Heart Association.
4. Supported the sports seasons of the Hunting and Equestrian Club.
5. Participated in the Kuwait Real Estate Forum.

End of Report

Annual Audit Committee Report
Ordinary General Assembly
2017

Committee Head Message

Esteemed Shareholders,

Greetings,

On behalf of myself and the committee members, I am honored to present to you the report of the Audit Committee for the financial year ended on 31/12/2017 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

In compliance with Capital Markets Authority instructions, Audit Committee was formed on 17/07/2016 for the term of the Board of Directors. During 2016, the Board of Directors approved the Committee's regulations, which set out the method and criteria for the selection of the Committee members, duration of the Committee, functions, responsibilities and authorities of the Committee, and the rules of its work. The Committee is fully independent of the Company's Executive Management.

In accordance with Article 15 (Corporate Governance) of the Executive Regulations issued by the Capital Market's Authority of Kuwait (Article 9-9, Paragraph 4, which stipulates that the General Assembly's agenda must include reading of the Audit Committee's Report), this report was prepared to be read in the next meeting of the Company's General Assembly.

The Company has established an Internal Audit office which is technically fully independent through the direct subordination to the Audit Committee. The internal audit duties has been assigned to a specialized consultant to assist in the company-wide internal audit functions.

Formation of the Committee

The Committee consists of the following members:

1. Mr. Marzouq Jassim Al-Bahar – Head of the Committee
2. Mr. Ahmed Faisal Al-Qatami – Independent Member
3. Mr. Mishari Abdullah Al-Dakheel – Independent Member

Mr. Rami Ali has performed the function of Committee secretary until 02/08/2017, while Mrs. Amal Al-Ashab is currently performing the function of the Committee as she was appointed by a resolution of the Board of Directors on 03/08/2017. She has taken the minutes of all Committee meetings, showing place, date, and the starting and ending time of the meeting. The minutes of the meetings are serially numbered of the year in which they are held. They are also classified and kept in a convenient manner that allows convenient reference to them. Being keen to ensure that all information and data required by all members of the Committee and / or the Board, all updated information and data are provided by the secretary of the Committee.

The Committee member, Mr. Ahmed Faisal Al-Qatami, holds academic qualifications and professional experience in accounting and finance.

Meetings of the Committee

The following table presents the details of the Committee's meetings during 2017:

Meeting Date	Meeting Number	Attending Members
22/03/2017	Audit Committee Meeting No. 1	3
14/05/2017	Audit Committee Meeting No. 2	3
21/06/2017	Audit Committee Meeting No. 3	3
02/08/2017	Audit Committee Meeting No. 4	3
12/11/2017	Audit Committee Meeting No. 5	3

Committee Opinion in internal audit regulations applied within the company:

The Committee believes that the company has adequate and satisfactory internal controls and audit systems that cover all activities of the company. Such systems maintain the financial integrity of the company, accuracy of its data and efficiency of its operations in various aspects. The organizational structure of the Company takes into consideration the following:

1) Proper identification of the authorities and responsibilities.

2) Double examination and audit, and double signing on the financial and accounting processes, in line with the terms of reference approved by the Council.

3) The principle of "Segregation of incompatibilities duties" in all the Company's operations which are performed through the manual systems and the automated systems. The main objectives of this principle are:

   a. Reduce the chance of concealing any process being implemented.

   b. Reduce the ability of any one person to control all the stages of an operation.

   c. Reduce the conflict of interest.

   d. Reduce the risks of fraud.

The Committee also believes that the Company relies on a set of advanced information systems, which contribute effectively to internal control and provide accurate and transparent information. The company has a matrix of powers that defines the limits of access and operation of these information systems. In addition, limits were set by the Board of Directors and the Executive Management to reflect the powers of decision-making and authorized signatories of the Company were appointed. The Company's management is keen to ensure that the authorities assigned to the employees conform to their responsibilities at an acceptable level of delegation and segregation of duties. The authorities and responsibilities of employees are subject to revision as per the requirements of the work environment and any changes in the organizational structure of the company.

Internal control procedures include operational, administrative and accounting control, and are applied continuously. The activities and performance of the Company are discussed through the periodic meetings of the senior management. All the relevant departments are informed of all the decisions taken during such meetings. All documents relating to the internal control system are maintained and classified to be used in the training of employees, and the inspection procedures and tests aimed at ensuring the efficiency and effectiveness of the system. The departments keep their files and records in a safe place and only grants access to the competent and authorized persons in accordance with the instructions of the administration.

Committee Accomplishments:

The Committee has worked to establish a culture of commitment within the company by seeking to ensure the soundness and integrity of the financial reports of the company, as well as to ensure the adequacy and effectiveness of the internal control systems applied in the company. Following are the most significant accomplishments of the Committee during 2017:

1. Review the interim financial reports and recommend the Board of Directors to approve them.
2. Meet with the independent accounts audits, discuss the reports and financial statements, and ensure that no interventions or constraints were faced during auditing the annual consolidated financial statements of the Company and its affiliates by the Executive Management or Board of Directors.
3. Recommend the Board of Directors to appoint the independent accounts audit (Mr. Anwar Yousef Al Qatami - Al Qatami & Al Aiban Office) to audit the annual consolidated financial statements of the Company and its affiliates of 2017.
4. Review and discuss the report on the evaluation and review of the Internal Control Regulations applied within the Company, and issued by an independent audit office. Follow up the processing of the remarks and implementation of recommendations contained in 2016 Report.
5. Prepare the Annual Audit Committee Report on the adequacy of the internal control regulations applied by the company which includes the opinion and recommendations of the Committee in this regard. The report was presented to the Board of Directors.
6. Prepare the Audit Committee Report in order to be read at the General Assembly.
7. Review and discuss the internal audit reports (including the evaluation report of the Company's internal audit regulations), and follow up the processing of the remarks and implementation of the recommendations contained in such reports.

The Committee has informed the Board of Directors of its findings and transparent decisions. The Board of Directors periodically follows up the work of the Committee to verify that it carries out the tasks entrusted thereto. The Committee is responsible for its actions before the Board of Directors. The company's executive management provided all the information and data needed by the Committee in a complete, accurate and timely manner for all members of the committee, which enabled it to carry out its duties and tasks efficiently and effectively.

In compliance with the highest standards of transparency, the Company has laid down a mechanism designed to ensure that the corporate governance report , in the event where there is a conflict between the recommendations of the Audit Committee and resolutions of the Board of Directors, especially where the Board of Directors refuses to follow the Committee's recommendations regarding the internal and / or external auditors, include a statement that details such recommendations and the reason or reasons behind the Board of Directors' resolution not to follow them.

During 2017, there were no conflicts between the recommendations of the Audit Committee and resolutions of the Board of Directors.

Market Overview

To further expand Aqarat's local footprint in the Kuwait market, the company is embarking on an ambitious development program to capitalize on remaining buildable entitlement on several of its properties located within the Riggae area.

Block A Redevelopment

The larger of the two developments will encompass a complete redevelopment of Aqarat's existing Judicial Ministry Complex located on Fourth Ring Road. The first phase of this urban hospitality, residential, retail, and office community will include, a 10,000 square meter hotel managed by an internationally recognized operator, newly renovated distinctive residential units along with a state of the art fitness center, and a sun deck with a swimming pool surrounded by lush tropical landscaping.

The growth in both residential and commercial development in the Riggae area has resulted in increased demand for hospitality, residential and retail product in the area. We feel that the location and the quality of the new development will be well positioned to satisfy the forecasted demand in area.

"Riggae Block A" will present residents with a unique opportunity to experience entertainment district living in one of Kuwait's most desirable areas. A mixed-use live/work/play development, "Riggae Block A" will include a approx. 15 floors, room hotel above four levels of retail, wellness and entertainment options. Amenities will include a state of the art fitness facility, event spaces, and a podium level pool and entertainment area.

In addition to the newly constructed tower and retail center, Aqarat will begin the renovation of one of the three existing ministry towers and commence a conversion of the units to residential and hospitality usage in order to satisfy growing demand. The newly renovated apartments will feature approximately 13,000m^2 of apartment area. Residents will be able to unwind in the sparking pool or get a workout in the 24-hour fitness center. Subsequent phases of the development will include the renovation of the remaining two towers of the Judicial Complex at a later date.

Block 107 Expansion

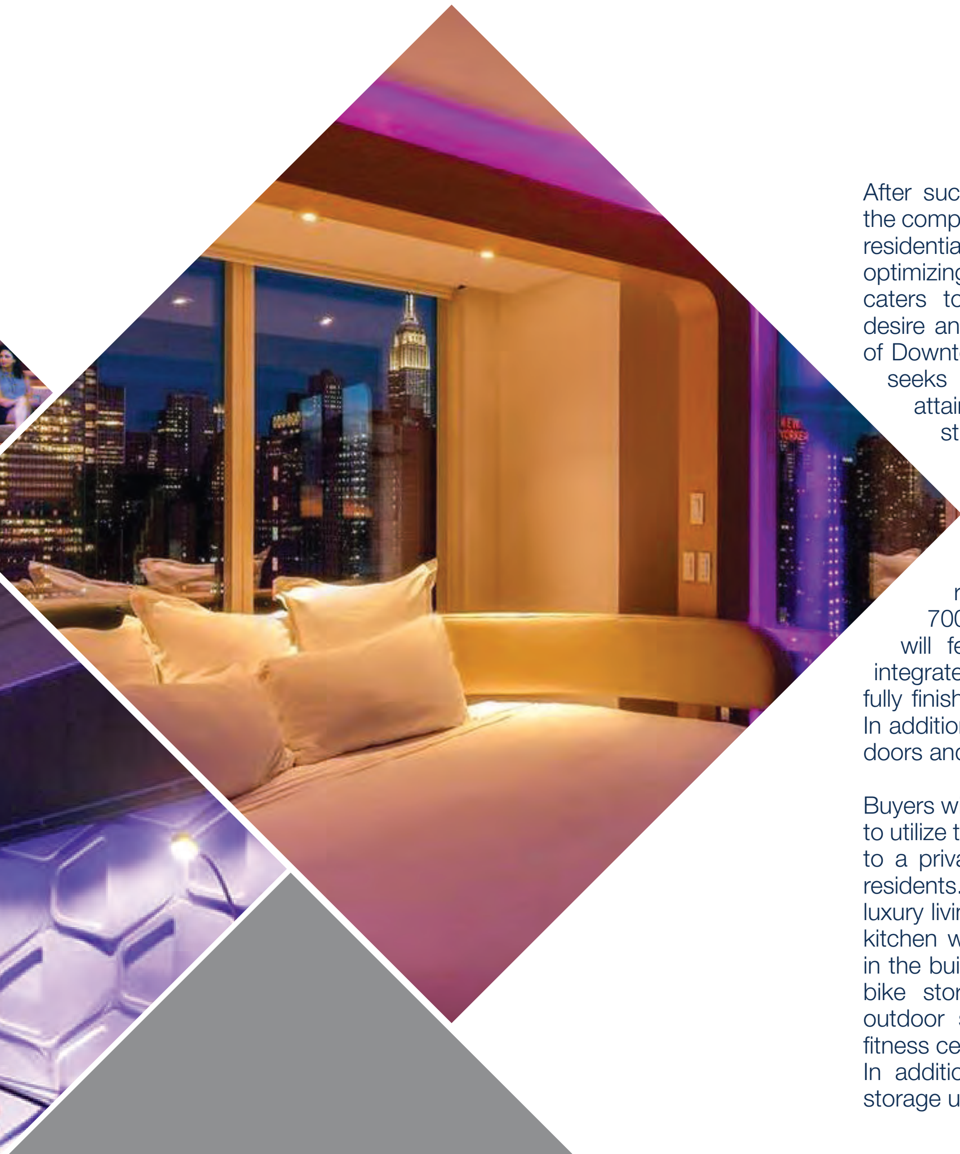
The second of the expansion projects is to build an extension to the company's Block 107 property. The new tower, which will be located adjacent to the existing Block 107, will encompass over 8,000 square meters of rentable area in addition to fifty square meters of retail. The tower will consist of 70 units, of approximately 120m^2.

Ideally situated within walking distance of restaurants and shops, within easy access to Fourth Ring Road, and a short distance from the newly constructed elevated freeway leading to the heart of Kuwait City.

Residents of "Block 107" will enjoy spacious, luxurious and stylish apartments, along with the convenience of having everything at their doorstep.

YOTEL MIAMI

In December, AQARAT, along with its Joint Venture partner Aria Development Group, announced its newest project, YOTELPAD Miami in the heart of Downtown Miami. YOTELPAD is a new residential division under the YOTEL brand umbrella. AQARAT is bringing this development to market as the first YOTELPAD to arrive on the East Coast. Located in Downtown Miami, YOTELPAD will feature 215 seamless residential units in addition to 250 hotel rooms.



After successfully launching YOTEL and YOTELAIR, the company recognized an opportunity to incorporate residential offerings into its portfolio with a goal of optimizing space and technology. YOTELPAD Miami caters to investors and young professionals who desire an exciting, metropolitan lifestyle in the center of Downtown Miami. With this unique project, Aqarat seeks to connect like-minded individuals at an attainable price point. The development will offer studio, one and two-bedroom units with prices starting in the $250,000 range.

YOTELPAD Miami will be located on floors 15-30 of the building, above the hotel portion of the project. Floor plans range from 425 square foot studios to 700 square foot 2-bedroom units. The PADs will feature carefully cultivated floor plans with integrated living, kitchen and dining areas, delivered fully finished with top-of-the-line flooring and lighting. In addition, PADs will offer floor-to-ceiling sliding glass doors and terraces with views of Downtown Miami.

Buyers will have the best of both worlds with the ability to utilize the common areas of the hotel as well access to a private penthouse-level that is exclusive to the residents. The Skytop Lounge features a game area, luxury living room with fireplace and an intimate chef's kitchen with private dining for 12 guests. Amenities in the building will include: concierge services, secure bike storage, full-service restaurant and bar with outdoor seating and private dining, state-of-the-art fitness center, co-working space, a lounge, pool deck. In addition, each PAD will come with a dedicated storage unit.


Plans successful

Financial Statements

Grant Thornton
Al-Qatami, Al-Aiban & Partners
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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 2017, 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 2017, 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. For each key audit matter below, our description of how our audit addressed the matters is provided in that context.

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 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 10 and 28.3.

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 available for sale investments
The Group's available for sale investments include 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 available for sale investments are included in Notes 11 and 28.2.

Our audit procedures included agreeing carrying value of the unquoted investments 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 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2017 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 2017 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
28 March 2018

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2017

Consolidated statement of profit or loss

	Notes	**Year ended 31 Dec 2017 KD**	Year ended 31 Dec 2016 KD
Revenue			
Real estate rental income		**17,072,342**	16,158,870
Real estate operating expenses		**(7,455,080)**	(7,506,882)
Net rental income		**9,617,262**	8,651,988
(Loss)/gain on sale of investment properties	10	**(20,076)**	155,799
Change in fair value of investment properties	10	**474,560**	3,881,973
Share of results of associates	12	**208,329**	80,124
Loss on sale of associate	12	**(813,104)**	-
Gain on bargain purchase of associate	12	**75,530**	-
Gain on sale of available for sale investments		**92,495**	161,795
Change in fair value of investments at fair value through profit or loss		**(11,955)**	(33,309)
Gain on sale of investments at fair value through profit and loss		**3,865**	-
Dividend income		**357,983**	436,134
Gain on liquidation of subsidiary		**-**	51,053
Gain on bargain purchase of subsidiary		**-**	663,087
Compensation by an associate for uncollected rental income		**-**	598,476
Other income		**1,806,188**	963,006
		11,791,077	15,610,126
Expenses and other charges			
General and administrative expenses		**1,322,976**	1,361,683
Finance costs	8	**4,989,573**	4,178,227
Provision for doubtful debts		**442,787**	185,369
Impairment of available for sale investments	11	**2,179,287**	4,868,607
Provision for properties held for trading	13	**542,090**	-
		9,476,713	10,593,886
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat		**2,314,364**	5,016,240
Provision for KFAS		**(10,415)**	(22,573)
Provision for NLST		**(57,859)**	(125,406)
Provision for Zakat		**(23,144)**	(50,162)
Profit for the year		**2,222,946**	4,818,099
Basic and diluted earnings per share (fils)	9	**2.46**	5.32

The notes set out on pages 54 to 96 form an integral part of this consolidated financial statements.

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2017

Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec 2017 KD	Year ended 31 Dec 2016 KD
Profit for the year	**2,222,946**	4,818,099
Other comprehensive income:		
Items that will be reclassified subsequently to consolidated statement of profit or loss		
Available for sale investments:		
- Net change in fair value	**(2,487,710)**	(5,105,652)
- Transferred to consolidated statement of profit or loss on sale	**(103,098)**	70,946
- Transferred to consolidated statement of profit or loss on impairment	**2,179,287**	4,868,607
Exchange differences arising on translation of foreign operations	**(413,892)**	72,691
Total other comprehensive loss for the year	**(825,413)**	(93,408)
Total comprehensive income for the year	**1,397,533**	4,724,691

The notes set out on pages 54 to 96 form an integral part of this consolidated financial statements.

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2017

Consolidated statement of financial position

	Notes	31 Dec 2017 KD	31 Dec 2016 KD
Assets			
Non-current assets			
Property and equipment		**2,148,812**	1,825,675
Investment properties	10	**164,278,166**	164,728,737
Capital work in progress		**457,170**	310,634
Available for sale investments	11	**57,756,230**	55,585,600
Investment in associates	12	**3,623,001**	8,296,379
		228,263,379	230,747,025
Current assets			
Properties held for trading	13	**12,401,500**	13,139,105
Due from related parties	24	**1,304,124**	1,684,124
Accounts receivable and other assets	14	**3,248,896**	4,437,665
Investments at fair value through profit or loss		**22,006**	39,234
Cash and cash equivalents	15	**4,600,827**	3,578,474
		21,577,353	22,878,602
Total Assets		**249,840,732**	253,625,627
Equity and liabilities			
Equity			
Share capital	16	**90,671,294**	90,671,294
Share premium	16	**3,425,191**	3,425,191
Treasury shares	17	**(208,149)**	(208,149)
Treasury shares reserve		**2,298,155**	2,298,155
Statutory reserve	18	**15,078,144**	14,846,707
Voluntary reserve	18	**2,921,989**	2,690,552
Foreign currency translation reserve		**127,044**	540,936
Fair value reserve		**6,050,732**	6,462,253
Retained earnings		**12,953,860**	11,193,788
Total Equity		**133,318,260**	131,920,727
Liabilities			
Non-current liabilities			
Borrowings	19	**90,624,709**	84,931,683
Lease contracts commitment	21	**-**	1,531,625
Provision for employees' end of service benefits		**709,297**	1,131,242
		91,334,006	87,594,550
Current liabilities			
Due to related parties	24	**707,666**	7,495,834
Borrowings	19	**1,905,000**	1,108,518
Lease contracts commitment	21	**5,274,288**	5,808,954
Accounts payable and other liabilities	22	**15,653,862**	16,323,984
Due to bank	20	**1,647,650**	3,373,060
		25,188,466	34,110,350
Total Liabilities		**116,522,472**	121,704,900
Total Equity and Liabilities		**249,840,732**	253,625,627

Talal Jassem Al-Bahar
Vice Chairman

The notes set out on pages 54 to 96 form an integral part of this consolidated financial statements.

Kuwait Real Estate Company – KPSC and Subsidiaries
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Equity attributable to owners of the Parent Company

	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	Sub - total KD	Non-controlling interests KD	Total KD
Balance at 31 December 2015	90,671,294	3,425,191	(208,149)	2,298,155	14,345,083	2,188,928	468,245	6,628,352	7,378,937	127,196,036	19	127,196,055
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(19)	(19)
Total transactions with owners	-	-	-	-	-	-	-	-	-	-	(19)	(19)
Profit for the year	-	-	-	-	-	-	-	-	4,818,099	4,818,099	-	4,818,099
Other comprehensive income/(loss)	-	-	-	-	-	-	72,691	(166,099)	-	(93,408)	-	(93,408)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	72,691	(166,099)	4,818,099	4,724,691	-	4,724,691
Transferred to reserves	-	-	-	-	501,624	501,624	-	-	(1,003,248)	-	-	-
Balance at 31 December 2016	**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**	**-**	**131,920,727**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,222,946**	**2,222,946**	**-**	**2,222,946**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**-**	**(413,892)**	**(411,521)**	**-**	**(825,413)**	**-**	**(825,413)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(413,892)**	**(411,521)**	**2,222,946**	**1,397,533**	**-**	**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**	**-**	**133,318,260**

The notes set out on pages 54 to 96 form an integral part of this consolidated financial statements.

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

	Notes	Year ended 31 Dec 2017 KD	Year ended 31 Dec 2016 KD
OPERATING ACTIVITIES			
Profit for the year		**2,222,946**	4,818,099
Adjustments:			
Depreciation		**320,837**	41,147
Gain on bargain purchase of subsidiary		**-**	(663,087)
Finance costs		**4,989,573**	4,178,227
Loss/(gain) on sale of investment properties	10	**20,076**	(155,799)
Change in fair value of investment properties	10	**(474,560)**	(3,881,973)
Provision for properties held for trading	13	**542,090**	-
Share of results of associates	12	**(208,329)**	(80,124)
Gain on bargain purchase of associate	12	**(75,530)**	-
Gain on sale of available for sale investments		**(92,495)**	(161,795)
Impairment of available for sale investments	11	**2,179,287**	4,868,607
Gain on sale of investments at fair value through profit or loss		**(3,865)**	-
Change in fair value of investments at fair value through profit or loss		**11,955**	33,309
Provision for doubtful debts		**442,787**	185,369
Dividend income		**(357,983)**	(436,134)
Compensation by an associate for uncollected rental income		**-**	(598,476)
Loss on sale of associate		**813,104**	-
Gain on liquidation of subsidiary	7	**-**	(51,053)
Provision for employees' end of service benefits		**144,753**	186,163
		10,474,646	8,282,480
Changes in operating assets and liabilities:			
Due from related parties		**380,000**	4,736,997
Accounts receivable and other assets		**745,982**	(97,612)
Accounts payable and other liabilities		**(2,052,458)**	119,504
Due to related parties		**(3,137,428)**	819,802
Lease contracts commitments paid		**(2,066,291)**	(2,066,291)
Employees' end of service benefits paid		**(566,698)**	(71,763)
Net cash from operating activities		**3,777,753**	11,723,117
INVESTING ACTIVITIES			
Purchase of property and equipment		**(643,974)**	(1,089,336)
Proceeds from sale of property and equipment		**-**	9,602
Additions to capital work in progress		**(393,726)**	(1,182,820)
Purchase of investment properties	10	**-**	(6,089)
Proceeds from sale of investment properties	10	**1,152,243**	1,086,595
Proceed from sale of investment at fair value through profit or loss		**9,138**	-
Acquisition of associate		**(10,000)**	-
Additions of properties held for trading		**(14,266)**	-
Dividend received from associates	12	**103,392**	115,479
Net consideration paid on acquisition of subsidiaries		**-**	(8,646,481)
Purchase of available for sale investments		**(4,922,575)**	(5,557,924)
Proceeds from sale of available for sale investments		**671,635**	629,746
Restricted bank balance		**(236,114)**	(321,020)
Proceeds on liquidation of subsidiary	7	**-**	51,053
Dividend income received		**357,983**	436,134
Acquisition of non-controlling interests in subsidiary		**-**	(19)
Net cash used in investing activities		**(3,926,264)**	(14,475,080)

Kuwait Real Estate Company – KPSC and Subsidiaries
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Consolidated statement of cash flows (continued)

	Notes	**Year ended 31 Dec 2017 KD**	Year ended 31 Dec 2016 KD
FINANCING ACTIVITIES			
Net change in borrowings		**6,489,508**	1,289,796
Net change in due to bank		**(1,725,410)**	(1,332,077)
Finance costs paid		**(3,607,237)**	(4,178,227)
Net cash from/(used in) financing activities		**1,156,861**	(4,220,508)
Net increase/(decrease) in cash and cash equivalents		**1,008,350**	(6,972,471)
Foreign currency adjustments		**98,909**	78,117
Cash and cash equivalents at the beginning of the year	15	**3,159,006**	10,053,360
Cash and cash equivalents at the end of the year	15	**4,266,265**	3,159,006
Non-cash transactions:			
Purchase of available for sale investments		**(400,000)**	(1,751,600)
Due to related parties		**(3,650,740)**	-
Sale of associate		**4,050,741**	-
Acquisition of subsidiaries		**-**	(8,206,678)
Sale of available for sale investments		**-**	4,592,238
Due from related parties		**-**	5,349,898
Foreign currency differences		**-**	16,142

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 2017 were authorised for issue by the Parent Company's board of directors on 28 March 2018. 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 investments at fair value through profit or loss, available for sale investments 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.

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 2017 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes).

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement;

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

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

IAS 7 Statement of Cash Flows- Amendments (continued)

- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses;
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The Group's liabilities arising from financing activities comprise of borrowings and due to banks (note 19 and 20). A reconciliation between the opening and closing balances of these items is provided in Note 23. Apart from these additional disclosures the application of the amendments did not have any impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B10-B16) apply to an entity's interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

The application of the amendments did not have any impact on the consolidated financial statements of the Group as none of the Group entities are classified as, or included in disposal group that is classified as held for sale.

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 statements.

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 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
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)

4.2 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

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.

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 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 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 expected impact are as follows:

- the classification and measurement of the financial assets 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 will need to be 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 will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be 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 will be 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 (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing 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 (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

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Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)
However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the Group's financial assets and liabilities as at 31 December 2017 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 of the Group as follows:

Classification and measurement:
Management holds most debt type financial assets to hold and collect the associated cash flows and, therefore, these are to continue to be accounted for at amortised cost. However, 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.

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 these 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.

As a result of new classifications, certain equity investments will be reclassified from Available for Sale to FVTPL amounting of KD38,843,681 which will result in recognise the fair value reserve relating to these investments in retained earnings. Equity investments amounting to KD18,912,549 will be reclassified from Available for Sale to FVOCI and may be result in a reversal of previously recognised impairment losses related to these investments from retained earnings to the fair value reserve.

Loans as well as trade receivables 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.

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

Impairment:
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, trade receivables and due from related parties either on a 12-month or lifetime basis.

The Group expects to apply simplified approach to impairment for accounts receivable and due from related parties as required or permitted under the standard.

As a result, the impairment losses on the accounts receivable and other assets and due from related parties will increase by KD35,846.

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (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:
  - non-cash consideration and asset exchanges
  - contract costs
  - rights of return and other customer options
  - supplier repurchase options
  - warranties
  - principal versus agent
  - licencing
  - breakage
  - non-refundable upfront fees, and
  - consignment and bill-and-hold arrangements.

The Group has assessed the impact of IFRS15. Based on this assessment adoption of IFRS 15 is not expected to have any material effect 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.

Notes to the consolidated financial statements

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

- 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 is in the process of evaluating the impact of IFRS 16 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.

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.

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. Amendment is effective for annual periods beginning on or after 1 January 2018.

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.

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.

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

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.

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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.2 Business combinations (continued)

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 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. The Group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.3.1 Rental income

Rental income is recognised on an accrual basis.

5.3.2 Dividend

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

5.3.3 Interest income and similar income

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

5.4 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.

5.5 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.

5.6 Taxation

5.6.1 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.6 Taxation (continued)

5.6.2 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.

5.6.3 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.

5.7 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.

5.8 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.9 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.

5.10 Properties held for trading

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.

5.11 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.

5.12 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)

5.12 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.

5.13 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.

5.14 Financial instruments

5.14.1 Recognition, initial measurement and derecognition

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

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

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either

  (a) the Group has transferred substantially all the risks and rewards of the asset or
  (b) the Group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

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

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.14 Financial instruments (continued)

5.14.1 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.

5.14.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial asssets are classified into the following categories upon initial recognition:
- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL 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.

- ***Loans and receivables***

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

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

The Group categorises loans and receivables into following categories:

- *Accounts receivable and other assets*

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

- *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.

- *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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.14 Financial instruments (continued)

5.14.2 Classification and subsequent measurement of financial assets (continued)

- ***Financial assets at FVTPL***

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

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

- ***AFS financial assets***

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

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

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

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

5.14.3 Classification and subsequent measurement of financial liabilities

The Group’s financial liabilities include borrowings, borrowings, accounts payable and other liabilities, due to related parties and due to banks.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.14 Financial instruments (continued)

5.14.3 Classification and subsequent measurement of financial liabilities (continued)

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

- *Bank loans and due to bank*

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.

- *Accounts payable and other liabilities*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier 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.

5.15 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.

5.16 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.

5.17 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.

5.18 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.

Notes to the consolidated financial statements

5 Significant accounting policies (continued)

5.19 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.

5.20 Provisions, contingent assets and contingent liabilities

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

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

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

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

5.21 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.

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5 Significant accounting policies (continued)

5.21 Treasury shares (continued)

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.

5.22 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.

5.23 Foreign currency translation

5.23.1 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.

5.23.2 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.

5.23.3 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)

5.24 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 Classification of financial instruments

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

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

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

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

All other financial assets are classified as available for sale.

6.1.2 Classification of real estate

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

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

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

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. Equity method accounting for entities in which the Group holds over 20% of the voting rights

Management has assessed the level of influence that the Group has over its certain investments and determined that it has no significant influence even though the share holding in this investments is above 20%. Consequently, this investment has been classified as an available for sale investments.

6.1.5 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 available for sale investments

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

6.2.3 Impairment of trade receivables

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.

6.2.4 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.

Notes to the consolidated financial statements

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.5 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.

6.2.6 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.

6.2.7 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.

Notes to the consolidated financial statements

7 Subsidiary companies

Name of subsidiary	Country of incorporation	Ownership Percentage 31 Dec. 2017	Ownership Percentage 31 Dec. 2016	Principle activity
Habara Pearl Farm Company – American Shareholding Co.**	USA	**100%**	100%	Investment
Al-Aqdain Kuwaiti for Real Estate Development Co– KSCC	Kuwait	**96%**	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%**	100%	Investment
KREC Yotel Miami Equity Company Limited **	Cayman Islands	**100%**	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.

8 Finance costs

Finance costs related to the Group's financing activities including amounts due to banks and borrowings.

9 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 2017 KD	Year ended 31 Dec 2016 KD
Profit for the year (KD)	**2,222,946**	4,818,099
Weighted average number of shares outstanding during the year(excluding treasury shares) (share)	**905,339,849**	905,339,849
Basic and diluted earnings per share (Fils)	**2.46**	5.32

Notes to the consolidated financial statements

10 Investment properties

	Year ended 31 Dec 2017 KD	Year ended 31 Dec 2016 KD
At 1 January	**164,728,737**	142,651,795
Additions during the year	**-**	6,089
Transferred from capital work in progress	**247,189**	1,099,901
Disposals during the year	**(1,172,320)**	(930,796)
Change in fair value	**474,560**	3,881,973
Arising on acquisition of a subsidiary	**-**	18,041,343
Foreign currency translation adjustments	**-**	(21,568)
At 31 December	**164,278,166**	164,728,737

The Group's investment properties are located as follows:

	31 Dec 2017 KD	31 Dec 2016 KD
Kuwait	**144,646,200**	144,568,455
Other GCC and other countries	**19,631,966**	20,160,282
	164,278,166	164,728,737

During the year, the Group disposed investment properties with carrying value of KD1,172,320 for total sale consideration of KD1,152,243 which resulted in a loss of KD20,076.

Investment properties of KD102,950,000 (2016: KD98,300,000) are pledged against borrowings and due to bank (note 19 and note 20).

Note 28.3 sets out the measurement basis of fair value of the investment properties.

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11 Available for sale investments

	31 Dec 2017 KD	31 Dec 2016 KD
Local quoted securities	**14,269,766**	15,417,032
Local unquoted securities	**10,009,118**	10,223,984
Foreign unquoted securities	**23,465,510**	20,818,299
Debt instruments (below)	**9,952,936**	9,067,385
Managed funds	**58,900**	58,900
	57,756,230	55,585,600

The movement in the available for sale investments is as follows:

	31 Dec 2017 KD	31 Dec 2016 KD
Balance at 1 January	**55,585,600**	58,299,847
Additions during the year	**5,322,574**	5,557,924
Sale during the year	**(578,758)**	(3,086,255)
Change in fair value	**(2,487,710)**	(5,105,652)
Foreign currency adjustment	**(85,476)**	(80,264)
Balance at 31 December	**57,756,230**	55,585,600

The unquoted investments include investments having a carrying value of KD11,228,623 (2016: KD10,517,438) stated at cost due to unavailability of reliable sources to determine their fair values. Management studies and cash flow expectations for these investments do not indicate any impairment for these investments.

During the year, the Group recognized an impairment loss of KD2,179,287 (2016: KD4,868,607) for certain available for sale investments. Management is not aware of any factors which may indicate any further impairment for the available for sale investments.

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 28.2.

12 Investment in associates

12.1 Details of the associates are set out below:

Name of associate	Country of incorporation	Ownership Percentage 31 Dec. 2017 %	Ownership Percentage 31 Dec. 2016 %	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
ABC Real Estate Company – WLL	Kuwait	**-**	49	Real estate
EFS Facilities Services General Trading and Contracting Company – WLL	Kuwait	**50%**	-	General trading and contracting

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12 Investment in associates (continued)

During the year, the Group sold its ownership interest in its associate ABC Real Estate Co.- WLL with a carrying value of KD4,863,845 for an aggregate consideration of KD 4,050,741 which resulted in a loss of KD813,104. The sale consideration comprised of foriegn unquoted shares, which have been classified as available for sale investments, with fair value of KD400,000 and amount due to the associate of KD3,650,741.

During the year, the Group acquired from a related party 50% interest in EFS Facilities Services for General Trading and Contracting Co. – WLL for a total consideration of KD10,000. The Group classified this investment as an investment in associate because the Group is able to exercise significant influence but did not have control over the investee. The acquisition of this associate resulted in a provisional bargain purchase of KD75,530. The provisional fair value of the identifiable assets and liabilities as at the date of acquisition of the above investee were as follows:

	KD
Total assets	860,278
Total liabilities	(689,218)
Net assets	171,060
Purchase consideration	10,000
Share of net assets acquired	(85,530)
Gain on bargain purchase	(75,530)

The fair value of identifiable assets and liabilities acquired have been provisionally determined by the Group. The estimates referred to above, and resultant bargain purchase, are subject to revision within twelve months of the acquisition date.

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

	Year ended 31 Dec 2017 KD	Year ended 31 Dec 2016 KD
At 1 January	**8,296,379**	8,331,734
Additions	**85,530**	-
Disposal	**(4,863,845)**	-
Dividends	**(103,392)**	(115,479)
Share of results	**208,329**	80,124
At 31 December	**3,623,001**	8,296,379

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

	Year ended 31 Dec 2017 KD	Year ended 31 Dec 2016 KD
Group's share of results	**208,329**	80,124
Group's share of the total comprehensive income	**208,329**	80,124
Aggregate carrying amount of Group's interest in associates	**3,623,001**	3,432,535
Dividends received	**103,392**	115,479

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13 Properties held for trading

The movement in the properties held for trading is as follows:

	31 Dec 2017 KD	31 Dec 2016 KD
Balance at 1 January	**13,139,105**	-
Arising on acquisition of a subsidiary	**-**	13,139,105
Additions	**14,266**	-
	13,153,371	13,139,105
Provision for properties held for trading	**(542,090)**	-
Foreign currency translation adjustments	**(209,781)**	-
Balance at 31 December	**12,401,500**	13,139,105

The Group's properties held for trading are located in Lebanon.

As a result of impairment testing to the carrying value of the properties, the Group recognised an impairment loss of KD542,090.

Properties of KD 4,348,800 held for trading with a carrying value are pledged against borrowings (note 19).

During the previous year, the Group agreed to sell properties held for trading with carrying value of KD2,912,078 and an amount of KD2,185,490 was received as advance from clients as deposits. However, up to date of consolidated financial position the sale transactions have not been completed. Accordingly, the deposits received are carried under accounts payable and other liabilities as deposits received from clients (note 22).

14 Accounts receivable and other assets

	31 Dec 2017 KD	31 Dec 2016 KD
Accounts receivable	**3,535,293**	3,557,745
Prepaid expenses	**23,918**	25,834
Refundable deposits	**49,610**	127,010
Other assets	**882,862**	1,527,076
	4,491,683	5,237,665
Provision for doubtful debts	**(1,242,787)**	(800,000)
	3,248,896	4,437,665

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15 Cash and cash equivalents

	31 Dec 2017 KD	31 Dec 2016 KD
Cash and bank balances	**4,056,851**	3,132,354
Cash in investment portfolios managed by others	**445,528**	347,672
Term deposits	**98,448**	98,448
Cash and cash equivalents	**4,600,827**	3,578,474
Less:		
Restricted bank balances	**(236,114)**	(321,020)
Term deposits with original maturity exceeding three months	**(98,448)**	(98,448)
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	**4,266,265**	3,159,006

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 19).

16 Share capital and share premium

At 31 December 2017 and 31 December 2016, 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.

17 Treasury shares

	31 Dec 2017	31 Dec 2016
Number of treasury shares	**1,373,091**	1,373,091
Percentage of ownership (%)	**0.151**	0.151
Market value (KD)	**76,344**	83,759
Cost (KD)	**208,149**	208,149

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

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18 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.

19 Borrowings

	31 Dec 2017 KD	31 Dec 2016 KD
Murabaha payable (i)	**87,101,489**	83,328,473
Tawaroq payable (ii)	**3,015,225**	-
Term loans (iii)	**2,412,995**	2,711,728
Total	**92,529,709**	86,040,201
Borrowings in KD	**90,116,714**	83,328,473
Borrowings in USD and LBP	**2,412,995**	2,711,728
Total	**92,529,709**	86,040,201

The borrowings due for repayment as follows:

	31 Dec 2017 KD	31 Dec 2016 KD
Within one year	**1,905,000**	1,108,518
Over one year	**90,624,709**	84,931,683
	92,529,709	86,040,201

Murabaha payable represents Islamic financing obtained in Kuwaiti Dinar from local and foreign Islamic banks, carry an annual profit rate of 2% - 2.75% (2016: 2.4% to 2.75) over CBK discount rate and repayable in different unequal instalments ending on 31 December 2025. Murabaha payable are secured by certain investment properties (note 10).

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

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 properties held for trading (note 13) and the Group's shares in certain fellow subsidiaries.

Notes to the consolidated financial statements

20 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. Those facilities carry an annual profit rate of 1.75% (31 December 2016: 1.75%) above the Central Bank of Kuwait discount rate.

The due to bank balance is secured against mortgage of certain investment properties (note 10).

21 Lease contracts commitment

Lease contracts commitment 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.

22 Accounts payable and other liabilities

	31 Dec 2017 KD	31 Dec 2016 KD
Accounts payable	**4,643,664**	4,168,263
Deposits received from clients on sale of properties (note 13)	**2,185,490**	2,912,078
Rent collected in advance	**1,685,227**	2,827,061
Accrued expenses and leave	**1,759,885**	705,999
Kuwait Foundation for the Advancement of Sciences	**32,988**	22,573
National Labour Support Tax	**2,902,562**	2,844,703
Zakat	**307,519**	284,374
Dividends payable	**1,756,573**	1,785,820
Other liabilities	**379,954**	773,113
	15,653,862	16,323,984

Notes to the consolidated financial statements

23 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 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**

	Borrowings KD	Term loans KD	Due to bank KD	Total 2016 KD
Balance at 1 January	77,585,754	4,413,200	4,705,137	86,704,091
Cash flows:				
• Repayment	(143,988)	(4,413,200)	(1,332,077)	(5,889,265)
• Proceeds	5,886,707	-	-	5,886,707
Non-cash items:				
• Arising on acquisition of subsidiaries	2,751,452	-	-	2,751,452
• Foreign currency differences	(39,724)	-	-	(39,724)
31 December	86,040,201	-	3,373,060	89,413,261

Notes to the consolidated financial statements

24 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 2017	31 Dec 2016
	KD	KD
Consolidated statement of financial position:		
Purchase of investment in associate (note 12)	**10,000**	-
Purchase of available for sale investments	**-**	6,819,720
Sale of available for sale investments	**-**	4,592,238
Due from related parties	**1,304,124**	1,684,124
Due to related parties	**707,666**	7,495,834

Available for sale investments amounting to KD 2,816,948 (KD2,511,325 in 31 December 2016) are managed by a related party.

	Year ended	Year ended
	31 Dec 2017	31 Dec 2016
	KD	KD
Consolidated statement of profit or loss:		
Real estate operating expenses	**458,444**	417,380
General and administrative expenses	**230,000**	255,000
Compensation by an associate for uncollected rental income	**-**	598,476
Interest income	**-**	341,242
Key management compensation:		
Salaries and short-term benefits	**143,077**	143,077
Employees' end of service benefits	**26,000**	26,000

25 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 dividend for the year ended 31 December 2017. 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 11 May 2017 approved the consolidated financial statements for the year ended 31 December 2016 without dividends to shareholders or remuneration to directors.

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26 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 2017:				
Revenue/(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**
Year ended 31 December 2016:				
Revenue	13,422,626	1,358,884	828,616	15,610,126
Profit/(loss) for the year	6,964,481	(2,546,698)	400,316	4,818,099
As of 31 December 2016:				
Total assets	178,178,475	63,921,218	11,525,934	253,625,627
Total liabilities	108,130,193	9,747,201	3,827,506	121,704,900
Net assets	70,048,282	54,174,017	7,698,428	131,920,727

27 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.

27.1 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.

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:

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27 Risk management objectives and policies (continued)

27.1 Market risk (continued)

(a) Foreign currency risk (continued)

	31 Dec 2017 KD	31 Dec 2016 KD
United States Dollar	**2,533,875**	1,907,660
Euro	**304,254**	212,999
GBP	**25,301**	23,800
UAE Dirham	**214,251**	178,466

The following table details the Group's sensitivity to a 2% (2016: 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 2017 KD	31 Dec 2016 KD
Results for the year	**61,554**	46,459

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

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group 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%) (2016: +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. 2017		31 Dec. 2016	
	+ 1 %	**-1 %**	+ 1 %	-1 %
	KD	**KD**	KD	KD
Results for the year	**(896,333)**	**896,333**	(894,133)	894,133

Notes to the consolidated financial statements

27 Risk management objectives and policies (continued)

27.1 Market risk (continued)

(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% (2016: 5%) higher, the effect on the result for the year and equity would have been as follows.

	Result for the year		Equity	
	31 Dec. 2017 KD	31 Dec. 2016 KD	31 Dec. 2017 KD	31 Dec. 2016 KD
Investments at fair value through profit or loss	1,100	1,962	-	-
Available for sale investments	-	-	2,326,380	2,253,408
	1,100	1,962	2,326,380	2,253,408

If prices of financial securities had been 5% (2016: 5%) lower, the effect on the results for the year and equity would have been equally the reverse as disclosed above.

27.2 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. 2017 KD	31 Dec. 2016 KD
Available for sale investments	26,666,413	25,093,778
Due from related parties	1,304,124	1,684,124
Accounts receivable and other assets	3,224,978	4,320,356
Investments at fair value through of profit or loss	22,006	39,237
Cash and cash equivalents	4,600,827	3,578,474
	35,818,348	34,715,969

Notes to the consolidated financial statements

27 Risk management objectives and policies (continued)

27.2 Credit risk (continued)

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 27.4.

27.3 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 2017	**1 - 3 months KD**	**3 - 12 months KD**	**Over 1 year KD**	**Total KD**
Liabilities				
Borrowings	**-**	**1,995,863**	**92,193,363**	**94,189,226**
Lease contracts commitment	**-**	**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		**15,653,862**	**-**	**15,653,862**
Due to bank	**1,721,794**	**-**	**-**	**1,721,794**
	1,721,794	**23,631,679**	**92,902,660**	**118,256,133**

31 December 2016	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Liabilities				
Borrowings	-	1,129,010	88,766,049	89,895,059
Lease contracts commitment	-	5,808,954	1,531,625	7,340,579
Provision for employees' end of services benefits		-	1,131,242	1,131,242
Due to related parties	-	7,495,834	-	7,495,834
Accounts payable and other liabilities	-	16,323,984	-	16,323,984
Due to bank	3,524,848	-	-	3,524,848
	3,524,848	30,757,782	91,428,916	125,711,546

Notes to the consolidated financial statements

27 Risk management objectives and policies (continued)

27.3 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities. Except for available for sale investments 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 available for sale investments and investment properties is determined based on management's planned exit dates.

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
Properties held for trading	-	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
Investments 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 commitment	-	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 bank	1,647,650	-	-	1,647,650
	1,647,650	23,540,816	91,334,006	116,522,472
Net liquidity gap	2,953,177	(6,107,120)	136,472,203	133,318,260

The maturity profile of assets and liabilities at 31 December 2016:

Notes to the consolidated financial statements

27 Risk management objectives and policies (continued)

27.3 Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2016:

	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Assets				
Property and equipment	-	-	1,825,675	1,825,675
Investment properties	-	-	164,728,737	164,728,737
Capital work in progress	-	-	310,634	310,634
Available for sale investments	-	-	55,585,600	55,585,600
Investment in associates	-	-	8,296,379	8,296,379
Properties held for trading	-	13,139,105	-	13,139,105
Due from related parties	-	1,684,124	-	1,684,124
Accounts receivable and other assets	-	4,437,665	-	4,437,665
Investments at fair value through profit and loss	-	39,234	-	39,234
Cash and cash equivalents	3,578,474	-	-	3,578,474
	3,578,474	19,300,128	230,747,025	253,625,627
Liabilities				
Borrowings	-	1,108,518	84,931,683	86,040,201
Lease contracts commitment	-	5,808,954	1,531,625	7,340,579
Provision for employees' end of service benefits	-	-	1,131,242	1,131,242
Due to related parties	-	7,495,834	-	7,495,834
Accounts payable and other liabilities	-	16,323,984	-	16,323,984
Due to banks	3,373,060	-	-	3,373,060
	3,373,060	30,737,290	87,594,550	121,704,900
Net liquidity gap	205,414	(11,126,528)	142,841,841	131,920,727

Notes to the consolidated financial statements

27 Risk management objectives and policies (continued)

27.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2017 and 2016 are as follows:

	Kuwait KD	Other Middle Eastern Countries KD	United States, Europe and other countries KD	Total KD
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	**2,886,782**	**69,242**	**292,872**	**3,248,896**
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**
	32,086,677	**2,511,445**	**32,333,961**	**66,932,083**
As of 31 December 2016				
Available for sale investments	27,365,103	210,134	28,010,363	55,585,600
Due from related parties	1,231,239	440,909	11,976	1,684,124
Accounts receivable and other assets	3,954,132	-	483,533	4,437,665
Investments at fair value through profit or loss	15,881	-	23,353	39,234
Cash and cash equivalents	2,855,488	80,018	642,968	3,578,474
	35,421,843	731,061	29,172,193	65,325,097

28 Fair value measurement

28.1 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

28 Fair value measurement (continued)

28.2 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:i

	31 Dec 2017 KD	31 Dec 2016 KD
Financial assets:		
Loans and receivables at amortised cost:		
Due from related parties	**1,304,124**	1,684,124
Accounts receivable and other assets	**3,224,978**	4,411,831
Cash and cash equivalents	**4,600,827**	3,578,474
Investments at fair value through profit or loss:		
Investments at fair value through profit or loss	**22,006**	39,234
Available for sale investments:		
Available for sale investments – at fair value	**46,527,607**	45,068,162
Available for sale investments – at cost	**11,228,623**	10,517,438
	66,908,165	65,299,263
Financial liabilities:		
Financial liabilities at amortised cost		
Borrowings	**92,529,709**	86,040,201
Lease contracts commitment	**5,274,288**	7,340,579
Provision for employees' end of service benefits	**709,297**	1,131,242
Due to related parties	**707,666**	7,495,834
Accounts payable and other liabilities	**15,653,862**	16,323,984
Due to bank	**1,647,650**	3,373,060
	116,522,472	121,704,900

In the opinion of management, except for certain available for sale investments which are carried at cost for reasons specified in note 11 to these consolidated financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2017 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

28 Fair value measurement (continued)

28.2 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 2017

	Level 1 KD	**Level 2 KD**	**Level 3 KD**	**Total KD**
Investments 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**

31 December 2016

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through profit or loss:				
Quoted securities	39,234	-	-	39,234
Available for sale investments:				
Local quoted securities	15,417,032	-	-	15,417,032
Local unquoted securities	-	-	11,625,800	11,625,800
Foreign unquoted securities	-	-	8,899,045	8,899,045
Debt instruments	-	-	9,067,385	9,067,385
Managed funds	-	58,900	-	58,900
	15,456,266	58,900	29,592,230	45,107,396

Notes to the consolidated financial statements

28 Fair value measurement (continued)

28.2 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.

Available for sale investments:
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 available for sale investments.

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

28 Fair value measurement (continued)

28.2 Fair value measurement of financial instruments (continued)

Available for sale investments: (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 2017	31 Dec 2016
	KD	KD
Opening balance	**29,592,230**	29,859,370
Change in fair value	**(2,803,626)**	(2,104,391)
Sales	**(389,157)**	(1,643,036)
Purchases	**4,398,059**	3,538,376
Transfer from level 1	**1,463,296**	-
Foreign currency	**(61,861)**	(58,089)
Closing balance	**32,198,941**	29,592,230

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.

28.3 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 2017 and 31 December 2016:

	Level 1	**Level 2**	**Level 3**	**Total**
	KD	**KD**	**KD**	**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**

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
31 December 2016				
Investment properties				
- in Kuwait	-	-	144,568,455	144,568,455
- in GCC & other countries	-	-	20,160,282	20,160,282
	-	-	164,728,737	164,728,737

The fair values of all investment properties have been determined based on valuations obtained from two independent 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 2017 and 2016, for the valuation purpose, the Group has selected the lower value of the two valuations obtained for each investment property.

Notes to the consolidated financial statements

28 Fair value measurement (continued)

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

Properties

The fair values of the properties that have been determined based on the lower of the two fair values was the fair value provided by independent valuers, one of them is a local bank for the local properties, 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 the lower of the two, one of them is a local bank for the local land, fair values was the fair value provided by an independent valuer 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	KD340 to KD2,100 (2016: KD325 to KD2,000)	Fair value increases if economic rental value increases, and vice versa.
Lands	Market comparison approach	Estimated market price (per sq ft.)	KD8 to KD125 (2016: KD8 to KD130)	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 2017 KD	31 Dec 2016 KD
Opening balance	**164,728,737**	142,651,795
Additions	**247,189**	1,105,990
Properties arising on acquisition of subsidiary	**-**	18,041,343
Disposals sale value	**(1,152,244)**	(1,086,595)
Gain or losses recognised in consolidated statement of profit or loss on:		
- Sale of investment properties	**(20,076)**	155,799
- Changes in fair value	**474,560**	3,881,973
Exchange differences recognised in other comprehensive income	**-**	(21,568)
Closing balance	**164,278,166**	164,728,737

Notes to the consolidated financial statements

29 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 2017 KD	31 Dec 2016 KD
Borrowings (Note 19)	**92,529,709**	86,040,201
Due to bank	**1,647,650**	3,373,060
Less:		
Cash and cash equivalents (note 15)	**(4,600,827)**	(3,578,474)
Net debt	**89,576,532**	85,834,787
Equity	**133,318,260**	131,920,727
Net debt to equity ratio	**67.19%**	65.06%

30 Contingent liabilities and commitments

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

	31 Dec 2017 KD	31 Dec 2016 KD
Issued letters of guarantee	**4,084,374**	4,086,874
Capital commitments on lease contracts	**1,541,150**	2,167,110
	5,625,524	6,253,984

Capital commitments on lease contracts arising on the agreements signed with the Ministry of Finance – State Property Management Department (Note 21).

Further, these agreements result in capital commitments on the Parent Company to maintain, develop and operate the properties within three years from the date of signing the final agreements.

31 Subsequent event

Subsequent to the date of the consolidated financial statements, the parent company has announced its willingness to make non-cash optional acquisition of the shares of International Resorts Company – KPSC, related party, which expressed its initial approval to study this proposal. However, at the date of issuing these consolidated financial statements, no initial agreement has been reached in this regard.

32 Comparative figures

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