AQARAT

عقارات

# Annual Report 2016

**H.H. Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah**

Amir

**H.H Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah**

Crown Prince

**H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah**

Prime Minister

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# Chairman's Message

## Esteemed Shareholders,

Greetings to All.

It is my pleasure to present to you the annual report of Kuwait Real Estate Company – (AQARAT) for the year 2016 in which we have outlined a briefing on the major achievements within the year.

## At the Financial Level

Profits of KD 4.8 million were realized compared to KD 4.2 million in 2015, equivalent to 5.32 fils per share in 2016 compared to 4.69 fils in 2015, an increase of 13.4%.

Rental income increased by 18% to KD 16.1 million compared to KD 13.6 million in 2015, buoyed by the addition of Arabella to our real estate portfolio.

The value of the company's assets increased to KD 253 million compared to KD 235 million in 2015, an increase of 7.7% over the previous year as a result of the increase in the real estate portfolio through our subsidiaries.

Operating expenses decreased from KD 9 million to KD 7.5 million predominantly consisting of payments related to the ongoing renovation of both Souq Al-Kuwait and the Souk Al-Kabir, in line with the agreement signed with the Ministry of Finance.

Shareholders' equity increased to KD 131.9 million in 2016 compared to KD 127.2 million in 2015. Accordingly, the book value of the share has reached Fils 145.

## At the Local Level

We are proceeding with the renovation of both Souq Al-Kuwait and Souq Al-Kabir, both of which are expected to be completed by the third quarter of 2017.

In the beginning of 2016, the company acquired the Arabella restaurant complex in Al Bida' in full through the acquisition of Al-Fareej Real Estate Company, which owns the complex. As such, Kuwait Real Estate Company became the sole owner of the land and the complex; this acquisition resulted in an increase of rental revenues and value of the company's real estate.

We are also in the process of developing new projects that will be added to the company's income generating real estate portfolio in the near future.

## On the Regional Level

During the fourth quarter of 2016, the value of the company's shareholding in IFA Hotels & Resorts – (Lebanon) increased to 100%, the entity owns a large real estate project located in Al Abadiyah Hills Lebanon with a total area of 70,000 square meters. The first phase of the project consisting of 45 villas has been completed. A significant portion of the villas has been sold and the market situation will be studied in order to determine if the company should complete the development or sell the remaining land.

Additionally, Kuwait Real Estate Company owns several real estate assets ranging from apartments, villas and lands in Dubai, Sharjah and Manama, where we evaluate these investments on a regular basis.

## On the Global Level

In 2016, we boosted our portfolio in United States by increasing investment in income-generating properties, including the acquisition of a commercial building in San Francisco which is under renovation and its set to be repositioned to achieve a higher rental value. In addition, the company acquired another office building in Silicon Valley, fully leased to Apple Inc. It is worth noting that all of our investments in the US are performing well. Earlier in the year, we divested of one of our real estate investments in the United States, resulting in a 20% IRR.

## Future Plans for 2017

In accordance with the plan set by the Board of Directors, the Company has set specific objectives for investing in income generating assets and development assets both inside and outside Kuwait.

The company is currently completing the construction of a new development, a restaurant complex in the Dasman area, which is expected to open in the second half of 2017. In addition, the company is currently studying several projects to be added to the portfolio owned by the company.

We look forward to diversifying our sources of income in terms of the company's presence in a variety of markets in order to ensure risk hedging and market volatility.

Lastly, I sincerely thank the esteemed Members of the Board, employees and everyone who contributed to supporting and developing this company in order to advance towards a brighter and more profitable future.

Ibrahim Saleh Al Tharban
Chairman of the Board of Directors

# Board Members

**Ibrahim Saleh Al Therban**

Chairman

**Marzouq Jassim Al Bahar**

Vice Chairman

**Ahmad Faisal Al Qatami**

Board Member

**Hamed Mohammad Al Aiban**

Board Member

**Khaled Saeed Esbaitah**

Board Member

**Mohamed Issam Al Bahar**

Board Member

**Mishari Ahmed Al Ajeel**

Board Member

**Mishari Abdullah Al Dakhil**

Board Member

# Executive Management

**Emad Abdullah Al-Essa**

Chief Executive Officer


**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**

Human Resources &
Administration Manager

# 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.


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# Governance

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# Introduction

The Board of Directors 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 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.

During the year ended December 31, 2016, 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 2016, the Company updated several policies to help the Company adopt best governance practices.

## Structure of the Board of Directors

### Formation of the Board

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.

| | Description of the Member |
|---|---|
| **Ibrahim Saleh Al-Therban** | (Chairman of the Board)<br>Non-executive member |
| **Marzouq Jassim Al-Bahar** | (Deputy Chairman)<br>Non-executive member |
| **Ahmad Faisal Al-Qatami** | Independent member |
| **Mishari Abdullah Al Dakhil** | Independent member |
| **Khaled Saeed Esbaitah** | Non-executive member |
| **Mishari Ahmed Al Ajeel** | Non-executive member |
| **Mohammad Essam Al Bahar** | Non-executive member |
| **Hamed Mohammad Al-Aiban** | Non-executive member |
| **Rami Khaled Ali** | Secretary |

| Qualifications / Expertise | Date of election or appointment |
|---|---|
| Bachelor of Commerce / More than 41 years of experience in investment, finance and economy | 02/04/2015 |
| Bachelor of Business Studies / More than 5 years of experience in marketing, development and business administration | 16/08/2016 |
| Bachelor of Business Administration / More than 15 years of experience in financing and banking | 02/04/2015 |
| Bachelor of Business Management / More than 25 years of experience in finance and commercial laws | 02/04/2015 |
| Bachelor of Architecture / More than 23 years of experience in real estates and investment | 02/04/2015 |
| Bachelor of Finance and Financial Institutions / More than 8 years of experience in investment, assets and portfolio management | 02/04/2015 |
| Bachelor of Business Administration / More than 6 years of experience in management and development | 02/08/2016 |
| Bachelor of Business Administration / More than 31 years of experience in financial affairs, investments, banking and management | 28/07/2016 |
| Bachelor of Business Administration - Accounting / More than 16 years of experience in accounting and finance | 12/11/2015 |

**Briefing on the Meetings of the Board of Directors of Kuwait Real Estate Company**

Meetings held by the Board during 2016:

| | 1st meeting 31/03/2016 | 2nd meeting 12/05/2016 | 3rd meeting 17/07/2016 | 4th meeting 11/08/2016 | 5th meeting 16/08/2016 | 6th meeting 13/11/2016 | Number of meetings |
|---|---|---|---|---|---|---|---|
| **Ibrahim Saleh Al-Therban**<br>Chairman | √ | √ | √ | √ | √ | √ | 6 |
| **Essam Mohammad Al Bahar**<br>Vice Chairman **(Resigned)** | √ | √ | Resigned | Resigned | Resigned | Resigned | 2 |
| **Othman Ahmad Al-Sumait**<br>Member | √ | √ | Resigned | Resigned | Resigned | Resigned | 2 |
| **Khaled Saeed Esbaitah**<br>Member | √ | √ | - | √ | √ | √ | 5 |
| **Mishari Abdullah Al-Dakhil**<br>Member | √ | √ | √ | √ | √ | √ | 6 |
| **Ahmad Faisal Al-Qatami**<br>Member | √ | √ | √ | √ | √ | √ | 6 |
| **Marzouq Jassim Al Bahar**<br>Current Deputy Chairman | √ | √ | √ | √ | √ | √ | 6 |
| **Mishari Ahmad Al-Ajeel**<br>Member | √ | √ | √ | √ | √ | √ | 6 |
| **Hamed Mohammad Al-Aiban**<br>Member | - | - | - | - | √ | √ | 2 |
| **Mohammad Essam Al Bahar**<br>Member | - | - | - | - | √ | √ | 2 |
| **Rami Khaled Ali**<br>Secretary | √ | √ | √ | √ | √ | √ | 6 |

- Deputy Chairman Mr. Essam Mohammad Al-Bahar submitted his resignation on June 30, 2016
- Member Mr. Othman Ahmad Al-Sumait submitted his resignation on June 29, 2016
- Mr. Hamed Mohammad Al-Aiban was appointed member of the Board on July 28, 2016
- Mr. Mohammad Essam Al-Bahar was appointed member of the Board on August 2, 2016
- Mr. Marzouq Jassim Al-Bahar was elected Deputy Chairman on August 16, 2016
- Mr. Rami Khaled Ali was appointed Secretary of the Board on 12/11/2016
- The Board's Secretary performs his duties by taking, coordinating and saving the minutes of the Board's meetings and by facilitating the access to information for the members of the Board.

## Responsibilities of the Board of Directors

The Board of Directors shall have all the powers and authorities necessary to manage the company and shall bear the ultimate responsibility therefore. The tasks and responsibilities of the Board of Directors and the Executive Management were clearly defined in the approved policies and regulations reflecting the balance between powers and authorities of each. The Board exercises its tasks and activities through the committees deriving from; to this purpose, the Board has delegated some powers to these committees based on approved charters. The Board shall also be responsible for setting all policies and ensuring that appropriate strategies are laid down to serve its objectives and aspirations.

Tasks and responsibilities of the Board include the following:

1. Approving, reviewing and orienting major company goals, strategies, plans and policies.
2. Issuing annual estimated budgets and approving quarterly and annual financial statements.
3. Supervising company's major capital expenditure, asset ownership and disposal.
4. 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.
5. Ensuring the accuracy and validity of the data and information required for disclosure in accordance with the disclosure and transparency policy in force.
6. Establishing effective communication channels to enable shareholders' access to periodic and continuous information on the Company's activities and any other essential developments therein.
7. Structuring the Corporate Governance System, its general supervision, monitoring its effectiveness and amending it as needed.
8. Monitoring the performance of each member in the Board of Directors and Executive Management using Key Performance Indicators (KPIs).
9. Forming specialized committees derived from the Board as per a charter that clarifies the period, powers and responsibilities of each and how the board will exercise supervision thereon, as well as determining the tasks, rights and obligations of the members of these committees and evaluating the performance and operations of these committees and its members.
10. 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. Approving work delegation and implementation policy with regard to the Executive Management.

11. 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 thereonand the Executive Management shall submit regular reports about its implementation of the delegated authorities.
12. Monitoring and supervising the performance of the Executive Management members and ensuring that they are accomplishing all assigned roles.
13. Issuing the remuneration regulations granted to employees, such as fixed remunerations, remunerations related to performance and long term risks and remunerations as shares.
14. Appointing or eliminating any member of the Executive Management, CEO or any member reporting to him.
15. Setting a policy for regulating the relationship with Stakeholders to protect their rights.
16. Setting a mechanism to regulate dealings with Related Parties to avoid conflict of interest.
17. Recommending appointment of independent auditors.
18. Regularly ensuring effectiveness and sufficiency of the internal control systems in force in the company and its subsidiaries.

**Major Achievements of the Board of Directors During 2016:**

1. Preparing job descriptions for each member of the Board of Directors and Executive Management, approving the organization structure and approving work delegation and implementation policy related to the Executive Management.
2. Reviewing and approving policies and regulations that clarify the tasks and responsibilities of the Board of Directors and Executive Management, thus, ensuring balance between the powers and authorities of the Board and the Executive Management.
3. Following up on the implementation of the company's activities in compliance with the company's organization structure through regular meetings with the Executive Management, and discussing the company's results through regular reports.
4. Approving the governance policies and regulations in compliance with the company's organization structure while staying up to date with the international best practices of governance.
5. Forming the committees derived from the Board, approving its charters and perusing interim reports and recommendations of these committees.

Article (2-6 and 2-7) of the fifteenth book issued by the Authority states that the Board of Directors shall establish a special register in which the minutes of the Board meetings shall be recorded in consecutive numbers for the year in which the meeting was held indicating the place, date and hour of the meeting. The Board also has to prepare minutes related to all discussions and deliberations that take place, including all voting procedures that have been classified and registered in an accessible way. Moreover, the Board of Directors has to select from the employees a Secretary of the Board and determine his duties in line with the level of responsibilities he will be entrusted with. A secretary may not be appointed or eliminated unless it is with a resolution issued by the Board. The Board Secretary shall have the following tasks and responsibilities:

1. Writing and registering the Board's meetings minutes, its records, books and reports submitted to and from the Board, provided that the minutes of the meetings are signed by him and by all the members present.
2. Ensuring that the members of the Board of Directors follow the procedures approved by the Board and ensuring that the Board is informed of the meetings dates three working days in advance, taking into consideration the emergency meetings.
3. Ensuring that the Board members have full and quick access to all the minutes of the Board meetings, in addition to all relevant information, documents and records related to the Company.
4. Ensuring proper delivery and distribution of information and coordination among members of the Board and the interests of third parties in the company, including the shareholders, various departments in the company and all employees under the supervision of the Chairman.

**Executive Management**

The activities of the company are carried out by the Executive Management under the supervision and direction of the company's CEO in order 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.

The Board of Directors is responsiblefor supervising the Executive Management. These responsibilities include the following:

1. Appointing and eliminating, if necessary, members of the Executive Management including CEO, Compliance Officer, Risk Management Manager and Internal Audit Manager.
2. Setting performance standards based on the periodic assessment of the Executive Management members and ensuring an effective strategy for the replacement of the Executive Management members.
3. Supervising the members of the Executive Management to ensure their implementation of the assigned roles according to the objectives and policies of the company as approved by the Board.
4. Monitoring the actions taken by the Executive Management to ensure that they comply with the strategy and policies approved by the Board according to the company's approved risk appetite.
5. Holding periodic meetings with the Executive Management, if necessary, to discuss the various matters related to the company.
6. Reviewing and discussing the information and reports submitted by the Executive Management.
7. Ensuring that the qualifications and experiences of the Executive Management members are consistent with the nature of the company's activities and the risks to which it is exposed.

**Obligations of the Executive Management Towards the Board of Directors**

1. Submitting recommendations concerning the approved strategy for enhancement and development purposes through thorough plans.
2. Executing the company's strategic plan and all relevant policies and internal regulations and ensuring its sufficiency and effectiveness.
3. Taking full responsibility for the company's general performance and its end results by establishing a management structure that promotes accountability and transparency.
4. Offering all necessary information and reports in a timely manner with utmost accuracy and comprehensively.
5. Submitting periodic financial and operational reports about the performance of the departments with regard to the level of progress achieved by the company's activities in light of the strategic plans and objectives, provided to be submitted to the Board of Directors.
6. Drawing an integrated accounting system that ensures the keeping of books, registers and accounts that reflect in a detailed and accurate manner the financial data and revenue accounts in such way as to safeguard the Company's assets and preparing the financial lists as per the international accounting standards.
7. Submitting recommendations and reports about the authorities and powers granted to the Executive Management.
8. Following up on the implementation of the authorities and responsibilities granted as per the approved authorities matrix.
9. Developing, revising and updating the policies and strategies as well as discussing and approving the same for a better implementation.
10. Implementing an internal control and risk management system, ensuring effectiveness and adequacy of those systems.
11. Managing all the activities, human and financial resources effectively to maximize profits, minimize expenses and achieve the company's strategy.
12. Effectively participating to the building and development of moral values within the Company.
13. Supervising and following up to ensure implementation of the laws, regulations and policies adopted by the employees in view of achieving the company's strategy.

**Promote Code of Conduct and Ethical Standards**

- The culture of professional conduct and moral values is firmly established within the company, 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.

## Respect for Shareholders Rights

- Kuwait Real Estate Company seeks to maximize its profits and strengthen its competitiveness. Our goal is to enhance trust between the investors and ourselves.
- The Company identifies and safeguards shareholders' rights and guarantees equality in the dealing regardless of their levels, as it also protects their capital from misuse, where the Company's Articles of Association and its bylaws include the necessary procedures and controls to ensure that all shareholders exercise their rights in a way that does not contradict with the applicable laws and regulations. The Company does not block any of the rights referred to in Article 9-5 which state the general rights of shareholders:

    1. Registering the ownership in the Company's records.
    2. Disposing of shares from registration, transfer and/or relocation of ownership.
    3. Obtaining the share of the dividends.
    4. Obtaining a share of the company's assets in case of liquidation.
    5. Obtaining data and information about the company's activity and its operational and investment strategy in a regular and easy manner.
    6. Participating in the meetings of the General Assembly of shareholders and voting on its decisions.
    7. Electing members of the Board of Directors.
    8. Monitoring the performance of the company in general and the work of the Board of Directors in particular.
    9. 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 works with utmost accuracy and follows up continuouslythe shareholders' data where it maintains a special register with the 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 addition to a record that contains the names of the sukuk holders, their nationality, domicile, number and type of securities or sukuk and the paid up value thereof.
- The company provides shareholders with access to its shareholders' register and it guarantees utmost protection and confidentiality when dealing therewith.
- 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.

### Disclosure and Transparency in an Accurate and Timely Manner

Kuwait Real Estate Company prepared a register that includes all information contained in the disclosures received under the tenth book of the executive by-laws 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.
- At the beginning of each year,we disclose our shareholders who represent 5% or more of the company's capital (Annex 4).
- 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 shall keep a list of the names of insiders in Kuwait Real Estate Company (Annex 5).
- The Company 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 (Annex 6).
- The Company discloses the material information (Annex 11). 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, the External Auditor or Shari'a Supervisory Board, 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 Article.
- 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.

While defining tasks and responsibilities, the Company has restructured and delegated more powers to the Executive Management. It also established administrative units such as the Audit Unit and Risk Management Unit and it established committees such as the Audit Committee, Risk Management Committee, Nomination and Remuneration Committee.

The Board of Directors has established the committees required by the Authority as shown in the table below:

**Recruit Highly Qualified Candidates for Members of the Board of Directors and Executive Management**

- The Board of Directors has appointed a specialized committee to prepare recommendations, nominations and remunerations consisting of three members plusone secretary.
- A clear remuneration policy has been established that determines the remuneration of the Chairman and members of the Board of Directors.
- The tasks and responsibilities of the Nominations and Remuneration Committee shall include the following items in accordance with the provisions of Article (4-3):

1. Recommending nomination and re-nomination of the members of the Board of Directors and Executive Management.
2. Establishing a clear policy for the remuneration of the members of the Board of Directors and the Executive Management, with the annual review of the required skills requirements for the Board membership, attracting applicants to fill executive positions as needed, studying and reviewing such applications, determining the different remunerations to be granted to the employees such as fixed remunerations, performance remunerations, remunerations as shares and end of service remunerations.
3. Developing job descriptions for executive, non-executive and independent members.
4. Ensuring that the independence of the independent board member is still valid.
5. Preparing a detailed annual report on all the remunerations granted to the members of the Board of Directors and Executive Management, whether in the form of amounts, benefits or privileges, of any nature or type. This report shall be submitted to the General Assembly for approval and shall be read by the Chairman. The company must prepare the remuneration report with utmost accuracy and transparency so that the remunerations awarded are disclosed, either directly or indirectly, avoiding any attempt of concealing or misleading.

**Risk Management and Internal Control Policies**

- The company has an independent risk management department that mainly measures, monitors and limits all types of risks facing the company.
- The Board of Directors formed a Risk Management Committee to carry out the following tasks:

1. Preparing and reviewing risk management strategies and objectives.
2. Supervising and monitoring risk management activities as well as developing and implementing

the scope of work of the risk management and internal control system.

3. Reviewing and updating existing policies and procedures of the company.

4. Reviewing the findings of the Audit Committee related to risks and developing methodologies for measuring risks and steps to monitor and control exposure thereto.

- The company has internal control systems that cover all the activities of the company in order to maintain the financial integrity of the company and the accuracy of data as well as the efficiency of its operations in various aspects.

**Audit Committee:**

| | |
|---|---|
| **Marzouq Jassim Al-Bahar** | Head of Committee |
| **Ahmad Faisal Al-Qatami** | Member |
| **Mishari Abdullah Al-Dakhil** | Member |
| **Rami Khaled Ali** | Secretary |

**Nominations and Remunerations Committee:**

| | |
|---|---|
| **Ibrahim Saleh Al-Therban** | Head of Committee |
| **Mishari Abdullah Al-Dakhil** | Member |
| **Mohammad Essam Al-Bahar** | Member |
| **Rami Khaled Ali** | Secretary |

### Duties of the Remunerations and Nominations Committee

1. To draw clear policies concerning compensations and insurance against risks related to professional liability of the members of the board of directors and determining the policies and criteria related to measuring performance and the execution thereof.

2. To prepare and develop the policy of the benefits and remuneration of the members of the board of directors in line with the laws in force, and presenting recommendations to the board of directors concerning proposed remuneration, subject to approval by the ordinary general assembly.

3. To prepare and develop a policy for the benefits and remuneration of the members of the board committees.

4. To determine the various tranches of remuneration to be granted to the employees, such as the tranche of fixed remuneration, the tranche of remuneration linked to performance, the tranche of remuneration in the form of shares and the tranche of the termination benefits.

5. To supervise the preparation of the policy related to remuneration, promotions, salary increments, privileges, incentives and salaries of the executive management and employees.

6. To verify that the remunerations granted are in line with the company's policy, and to review those policies periodically and evaluate their effectiveness in achieving the desired objectives of attractive the desired quality of human resources and to keep efficient employees.

7. To prepare a detailed annual report on all remunerations granted to the members of the board of directors and the executive management, provided that such report should be presented to the general assembly for approval.

8. To give an initial approval of the annual manpower plan according to the company's needs and the recommendations of the executive management for presenting it to the board of directors for final approval.

9. To give an initial approval of the circulating and substitution plan for executive positions for presenting it to the board of directors for final approval.

10. To draw job descriptions for the executive, non-executive and independent members of the board of directors.

11. To nominate and re-nominate independent members for election by the general assembly and to ensure that the independent member of the board of directors does not lose his independent capacity.

12. To submit recommendations to the board of directors to appoint members of the executive management and vacant leadership positions according to the adopted policies and standards and in a manner consistent with the regulating instructions and laws.

13. To ensure the nomination of the individuals who are the most efficient, experienced, able and skilled for performing the work functions entrusted to any vacant position in accordance with the highest standards.

14. To supervise the preparation and determination of the cadres needed by the company at the level of executive management, the bases of their selection, hiring processes and the conditions of the employment contracts of the company's employees who report directly to the chief executive officers as well as the amendments to, renewal and / or termination and resignation of employees.

15. To supervise the preparation of the training plan for all the company's employees and monitor the application thereof.

16. To approval the company's job grade structure and salary scale.

17. To perform any other responsibilities entrusted to the committee by the board of directors in line with the adopted table of authorities.

**Report of the Remunerations Awarded to the Members of the Board of Directors:**

- The Nomination and Remuneration Committee submits 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 company's general assembly.
- The Human Resources Department shall submit its proposal with regard to the annual remunerations as per the specified appropriations and evaluation of the company's employees.
- Date of remuneration payment shall be specified in case they are approved by the higher management.
- Remunerations are specified according to the evaluation of the employee.
- Evaluation results are submitted to the Nomination and Remuneration Committee for review and approval.

**Report of the Remunerations Awarded to the Members of the Board of Directors**

| Executive Management | Amounts (Kuwaiti Dinar thousand) |
|---|---|
| Fixed remuneration (including wages and main salaries) | 385 |
| Variable remuneration | 190 |
| End of service remuneration | 94 |

**Board members:** None

**Risk Management Committee:**

| | |
|---|---|
| **Ahmad Faisal Al-Qatami** | Head of Committee |
| **Marzouq Jassim Al-Bahar** | Member |
| **Mohammad Essam Al-Bahar** | Member |
| **Rami Khaled Ali** | Secretary |

## 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.
- An audit committee has been established consisting of three members plus one secretary. Members of the Audit Committee have scientific and practical expertise in accounting and finance. The committee is also fully independent whereit seeks to establish a culture of commitment within the company by ensuring authenticity and integrity of financial reports and verifying adequacy and effectiveness of the applicable internal control systems.
- There is no conflict between the recommendations of the Audit Committee and the decisions of the Board of Directors.
- The company emphasizes the independence and impartiality of the external auditor.

## Role of Stakeholders

- The Company respects and recognizes the rights of stakeholders under the laws in force in the State of Kuwait and promotes cooperation between stakeholders and itself.
- 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 in the laws issued in this regard.
- The policy that has been laid down confirms that the company deals with the Board members and stakeholders equally and under the same conditions it applies with the various stakeholders, without any discrimination, and also the procedures that will be followed in the event of breach by any party of its obligation as well as the procedures for which compensation will be paid.
- The company has identified mechanisms for compensation of stakeholders in the case of violation of their rights and other mechanisms that show how the company establishes good relations with customers and suppliers while maintaining the confidentiality of their information, as well as mechanisms for settling complaints or disputes that may arise between the company and stakeholders.
- The company is keen to ensure that none of the stakeholders gain any advantage by dealing in contracts and transactions that fall within the normal activities of the company.
- The company has established internal policies and regulations that include a clear mechanism for awarding contracts and transactions of various types, through various tenders or purchase orders, as well as mechanisms to facilitate stakeholders reporting to the board of directors any improper practices they are exposed to by the company while protecting the whistleblower.
- 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**

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 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.

The Company has established systems and mechanisms to evaluate the performance of each member of the Board of Directors and Executive Management on a regular basis by developing a set of performance indicators related to the achievement of the Company's strategic objectives and the adequacy of the internal control systems.

During the year, self-assessment procedures were conducted for the members of the Board of Directors and its committees. The results of the self-assessment also included a plan to develop the work of the Board and identify aspects of development and necessary training for members during 2017.

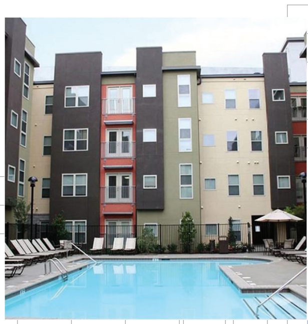
The Board is keen to lay down values within the company on the short, medium and long term, and to this end, it has adopted the Code of Business Conduct, which emphasizes the existence of means to follow these practices and to adhere to the highest professional standards and corporate values.

The Board also sought to link the commitment to corporate values with the assessment rates of the employees' performance in order to ensure achievement of the company's strategic objectives.

**Importance of Social Responsibility**

- The company contributes to the sustainable development of the society in general and to the employees of the company in particular, and contributes to the reduction of unemployment in the society and to the optimal utilization of available resources.
- The company is aware of the importance of social responsibility, which is linked to a number of values and standards of humanity. To this end, the company ensures the following:

1. Supports Theater shows for people with special needs and disabled people on the first day of Adha Holiday.
2. The company holds annually Ghabka for Ramadan, attended by the employees and the Executive Management to consolidate the communication between them.
3. Cooperates with Kuwait Red Crescent Society through donations to fund humanitarian issues.
4. Donates to Autism Partnership to rehabilitate children suffering from autism in Kuwait.
5. Donates to Kuwait Society for the Welfare of Disabled Persons.
6. Employs Kuwaiti nationals and expats.
7. Provides training for its staff to develop their potential.

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# Audit Committee Report

1 Message of Committee Chairman

2 Introduction

3 Objectives of the Committee

4 Formation of the Committee

5 Duties of the Committee

6 Meetings of the Committee

7 Accomplishments of the Committee

**First: Message of the Committee Chairman**

Esteemed Shareholders,

Greetings,

On behalf of my colleagues on the Committee and for myself, I am honored to present to you the report of the Audit Committee for the financial year ended on 31/12/2016 including the main duties and accomplishments of the Committee during the period.

Yours Sincerely,

Marzouq Jasim Al Bahar

Chairman of the Committee

**Second: Introduction**

In compliance with the instructions of the Capital Markets Authority, the Company's Board of Directors Audit Committee was formed on 17/07/2016 for the term of the Board of Directors.

The Committee is responsible for assisting the Board in performing its responsibilities regarding supervising the quality and soundness of the accounting practices, internal and external audit, internal control, framework of risk management, financial reports, and the overall corporate governance . The roles and responsibilities of the Committee, and the conditions related its formation are defined by the Audit Committee regulations approved by the Board of Directors.

During 2016, the appointment of a specialized independent consulting office was approved to assist in the company-wide internal audit functions.

**Third: Objectives of the Committee**

The Committee aims at assisting the Board of Directors in performing its supervisory functions by overseeing the Internal Audit Department, following up the external auditors' work, and ensuring that the various policies of the company are effectively applied. This Committee also focuses on fostering the culture of compliance and commitment within the company by ensuring the soundness and integrity of the company's financial reports, the adequacy and effectiveness of the internal audit systems applied within the company.

**Fourth: Formation of the Committee**

The Committee consists of the following members:

1. Mr. Marzouq Jasim Al Bahar – Chairman of the Committee
2. Mr. Ahmad Faisal Al Qatami - Independent Member
3. Mr. Mashari Abdullah Al Dakheel - Independent Member

Mr. Rami Ali performs the function of Committee secretary. He was appointed by a resolution of the Board of Directors on 12/11/2015. The secretary 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 updates are provided by the secretary of the Committee.

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

### Fifth: Duties of the Committee

Duties and responsibilities of the Committee include the following:

1. Review of the periodical financial data before being presented to the Board of Directors, express the opinion and recommend to the Board of Directors in its regard, in order to ensure the fairness and transparency of the financial reports.
2. Recommend the Board of Directors to appoint and reappoint external auditors, replace them, determine their fees after insuring their independence, and review their letters of appointment.
3. Follow up the work of the external auditors, ensure their independence and that they do not provide the company with any services other than those required by the audit profession.
4. Examine the remarks of external auditors on the financial statements of the company, and follow up their implementation.
5. Examine the accounting policies followed in the company, express opinion and present recommendations in their regard to the Board of Directors.
6. Evaluate the adequacy of the internal audit regulations applied within the company and prepare a report with the Committee's opinion and recommendation in this regard.
7. Technically supervise the internal audit activities within the company in order to verify their effectiveness in performing the tasks and duties specified by the Board.
8. Review the results of the internal audit reports and external audit reports, and ensure that the necessary and sound procedures regarding the remarks on these reports are taken.
9. Verify the company's compliance with the relevant laws, policies, regulations and instructions.
10. Hold periodical meetings independently with the external auditors and internal auditor.

The Committee is responsible for its works before the Board of Directors

### Sixth: Meetings of the Committee

The following schedule represents the details of the Committee's meetings during 2016:

| Meeting Date | Meeting Number | Attending Members |
|---|---|---|
| 11/08/2016 | Audit Committee Meeting No. 1 | 3 |
| 06/11/2016 | Audit Committee Meeting No. 2 | 3 |

**Seventh: Accomplishments of the Committee**

Following are the most significant accomplishments of the Committee during 2016:

1. Review the interim financial reports and recommend the Board of Directors to approve them.

2. Request to prepare a report that includes the efficiency of the internal audit regulations applied in the company by an independent audit office.

3. Prepare Audit Committee Report in order to present it to the general assembly.

4. Review the annual financial statements and recommend the Board of Directors to approve them.

5. Recommend to the Board of Directors to appoint and reappoint external auditors, replace them, determine their wages after insuring their independence, and review their letters of appointment.

6. Follow up with the works of the external auditors, insure their independence and insuring that they will not provide any services to the company other than the services required by means of the auditing duty.

7. Examine the remarks of external auditors on the financial statements of the company, and follow up their implementation.

8. Examine the accounting policies followed in the company, express opinion and recommend in their regard to the Board of Directors.

9. Evaluate the adequacy of the internal audit regulations applied inside the company and prepare a report that states the Committee's opinion and recommendation in this regard.

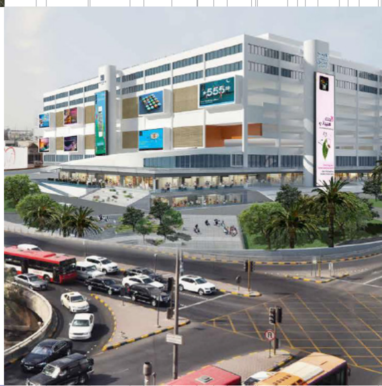
10. Technically supervise the internal auditing activities in the company in order to verify their efficiency in implementing the tasks and duties determined by the Board of Directors.

11. Review the results of the internal audit reports and external audit reports, and insure that the necessary and sound procedures regarding the remarks on these reports are taken.

12. Verify the company's compliance with the relevant laws, policies, regulations and instructions.

13. Hold periodic meetings independently with internal auditors and external auditors.

In compliance with the highest standards of transparency, the Company has placed the mechanism that makes sure that the governance report of the Company, in case where there is conflict between the recommendations of the Audit Committee and resolutions of the Board of Directors especially when the Board of Directors refuses to follow the Committee's recommendations regarding the internal and / or external auditors, shall include a statement that details these recommendations and the reason or reasons behind the Board of Directors' Resolution not to follow them. During 2016, there were no conflicts between the recommendations of the Audit Committee and Resolutions of the Board of Directors.



# Market General Overview

# Market General Overview

### 1095 Market Street Construction Financing

In March of this year, AQARAT and its joint venture partner Synapse Development Group, a real estate investment and development firm headquartered in New York City, announced the closing of a construction loan from Deutsche Bank - Special Situations Group (SSG) in connection to the redevelopment of 1095 Market Street in San Francisco.

1095 Market Street currently contains a historic office building that will be converted into a 203-key hotel operated by YOTEL, the pioneering technology-focused hospitality brand. The project has officially started construction and is slated for completion in late-2017.

1095 Market Street is located at the corner of Market Street and 7th Street in San Francisco's Mid-Market neighborhood, home to tech giants like Twitter and Uber. It is currently an eight-story, 110-year-old landmarked office building totaling 71,944 square feet. Upon completion, YOTEL San Francisco will total 84,000 square feet. The hotel will be home to YOTEL's signature Club Lounge concept including flexible meeting and co-working spaces as well as a signature ground-floor restaurant and truly unique rooftop lounge with 360-degree views of the city. Skanska Building USA is the general contractor for 1095 Market Street.

### Acquisition of 944 Market Street- San Francisco

In May, AQARAT and its joint venture partner Synapse Development Group, announced the acquisition of 944 Market Street, an eight-story mixed-used building located in San Francisco's burgeoning Mid-Market neighborhood. The Union Labor Life Insurance Company (ULLICO) provided the senior mortgage loan for the off-market acquisition.

Originally constructed in 1907, 944 Market Street includes 45,000 square feet of office space and ground-floor retail. The interiors include 5,300-square-foot floor plates with high, open ceilings and exposed brick. Renovations to the building – completed in 2012 – include a new main lobby and elevator cabs. The partnership plans to reposition the property and complete façade restoration work.

The acquisition of 944 Market Street marked another major milestone for the Synapse/AQARAT partnership as we continue to expand our real estate portfolio in urban markets, including San Francisco.

944 Market Street is located in the heart of The Downtown and Civic Center neighborhood, near the corner of 5th and Market Street. The building is located just minutes away from numerous dining, retail and entertainment destination. It's situated in a transit-oriented area with easy access to public transportation, and is located adjacent to the Powell Street BART Station.


HUDSON
NO TURNS
ONE WAY
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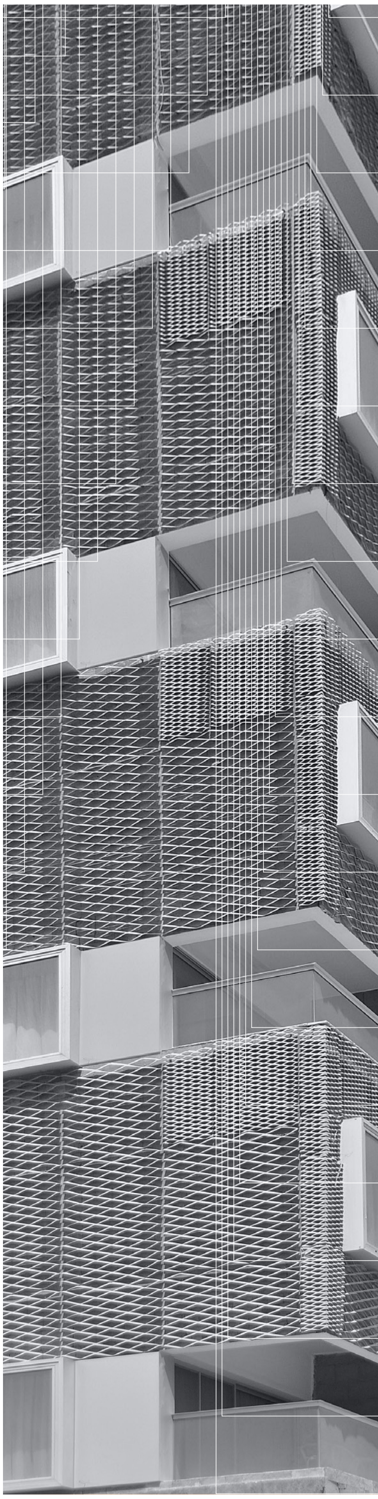
NO TURNS
ONE WAY
ONLY
DO NOT ENTER

# Market General Overview



### Aqarat Sells Apartment Complex in California at Record Breaking per Unit and per Square Foot Pricing

In May, AQARAT announced the sale of 2537 Fulton Street, a student housing property in Berkeley, California. Both the price per unit and the price per foot are records for apartments in Berkeley built before 2000 and over 5 units. The CAP rate was approximately 5.19 percent with a Gross Rental Multiplier of almost 13.56.

Student housing has become an increasingly important asset class for AQARAT's plans as we expand the U.S. portfolio. The strategy is beginning to yield profit as we exit some markets with the intention to enter others. The price escalation in the local Berkeley market made this an opportune time to divest of property, however, the company's long standing history in California dates back decades and we are confident in uncovering additional profitable real estate opportunities within the market in the coming years.

Located in South Berkeley, the asset is just four blocks from the University of California, Berkeley, and walking distance to all of Downtown Berkeley's shops, restaurants and entertainment making this asset a prime option for student living. 2537 Fulton Street was built in 1968, and received a complete remodel in 2013, which included a seismic upgrade with permits and removal from Berkeley's soft-story inventory list.

### The Flats at Atlantic Station

In July 2016, Flats at Atlantic Station in Atlanta was refinanced with an attractive loan from Freddie Mac. The loan was sourced by Empire Square Group, the asset manager on the transaction, through Marcus & Millichap and Pillar. The property was initially acquired in June 2016, all of AQARAT's initial equity in the deal has been as part of the refinance.

The property continues to generate strong cash-flow, leasing up to full occupancy each year and realizing approximately 5% annual rent increases since inception. Last year, the exterior of the property was completely repainted and resealed. The property was 98.6% occupied as of the end of 2016, achieving a NOI 10% above budget. Preleasing for the coming 2017-18 school year was 30% (as of the end of January), 10.5% ahead of preleasing at the same time last year.

### Yotel Investment LTD

In September, AQARAT acquired a stake in YOTEL Investment Limited, a fast growing affordable luxury hotel brand and management company currently operating 4 airport hotels under the YOTELAIR brand at London Gatwick, London Heathrow, Amsterdam Schiphol and Paris CDG airports; and one city hotel under the YOTEL brand in New York. YOTEL is expanding rapidly with 10 new hotels to open by 2019 in the USA, Europe, the Middle East and Asia. The Company aims to increase its pipeline to 50 hotels under management by 2022.

- Market Opportunity – the affordable luxury hospitality is an underserved market segment with huge potential globally. Yotel offers significant advantages from early stage entry.

- ESTABLISHED BRAND & STRONG DNA– Yotel "created" the affordable luxury hotel segment. The brand has received global recognition, press coverage and multiple industry awards.
- PROVEN BUSINESS MODEL –Yotel has accommodated over 1 million guests since opening its first hotel in London in 2007 with excellent guest satisfaction scores.
- VALUABLE PORTOFLIO – A geographically diversified hotel portfolios with hotels in key markets across Asia, the Middle East, Europe and North America. All hotels are managed under long term operating contracts generating high value for shareholders.
- FOCUSED OPERATIONS LEVERAGING TECHNOLOGIES – Yotel focuses on high margin rooms revenues and maximizes digital infrastructure to improve operating and distribution costs. GOP margins are consistently > 50%.
- EFFICIENT DESIGN – smaller, smarter design delivers up to 50% more keys than traditional hotels, Yotel generates one of the highest return per square foot in the industry.

### Acquisition of Remaining 51% Stake in Al-Abadiyah Hills - Lebanon

In October 2016, AQARAT announced the acquisition of the remaining 51% of the entity which holds Al Abadiyah Hills project in Dhour Al Abadiyah, Lebanon.

Nestled into Lebanon's famous mountains is Al Abadiyah Hills, an enchanting, gated Mediterranean village comprising private villas. Only 30 minutes from Beirut International Airport in the area of Aley and Bhamdoun, on the site of a former palace and enjoying a cool climate, the development is in the heart of Lebanon's favorite seasonal destination.

The company is currently in the process of restructuring the existing debt facility on the project as well as implementing a strategy to sell the remaining inventory in Phase I.

### 650 Almanor - Apple inc. Office

In December 2016, AQARAT acquired 650 Almanor at a below market cap rate and price per square foot. The property is a 54,215 sf office and R&D building located in the heart of Silicon Valley and fully leased to APPLE INC. (Nasdaq: AAPL) for a remaining term of 6 years.

As part of California's high-tech area known as Silicon Valley, Sunnyvale is the Silicon Valley location of companies including Google, Yahoo!, Apple, LinkedIn, Mercedes Driverless Car Division and Juniper Networks. It is also home to several aerospace/defense companies: Lockheed Martin has a major facility in Sunnyvale, and Honeywell, Northrop Grumman Electronic Systems. The property represents an attractive risk adjusted return with superior tenant credit, a premier Silicon Valley location, and a recently upgraded and modernized building.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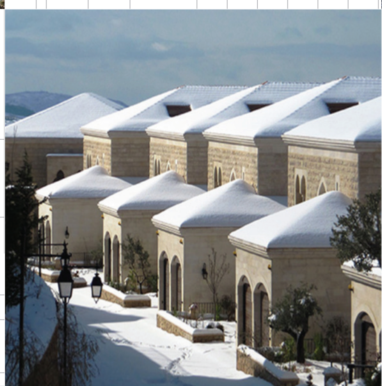

# Financial

# AGENDA OF THE ORDINARY GENERAL ASSEMBLY

for the financial year ended 31 December 2016

1. Listening to and approving the report of the Board of Directors for the financial year ended 31 December 2016.

2. Listening to the governance report and the Audit Committee report for the financial year ended 31 December 2016.

3. Listing to and approving the Auditor's report for the financial year ended 31 December 2016.

4. Discussing and approving the financial statements for the financial year ended 31 December 2016.

5. Listening to the violations and excesses report issued by the supervisory authorities or to the violations for which it had issued penalties against the company for the financial year ended 31 December 2016 (if any).

6. Approving the recommendation of the Board of Directors not to distribute any dividends to shareholders for the financial year ended 31 December 2016.

7. Approving the recommendation of the Board of Directors not to pay any remuneration for the Board members for the financial year ended 31 December 2016.

8. Approving the transfer of 10% (ten percent) of the profit for the year for distribution to the statutory reserve of KD 501,624 (five hundred and one thousand six hundred and twenty four Kuwaiti Dinars).

9. Approving the transfer of 10% (ten percent) of the profit for the year for distribution to the voluntary reserve of KD 501,624 (five hundred and one thousand six hundred and twenty four Kuwaiti Dinars).

10. Delegating the Board of Directors to buy or sell the Company›s shares not to exceed 10% of the number of its shares in accordance with the provisions of Law No. (7) of 2010, its Executive Regulations and their amendments.

11. Approving the Company›s transactions with relevant parties during the financial year ended 31 December 2016 and delegating the Board of Directors to deal with relevant parties.

12. Releasing and discharging the members of the Board of Directors in respect of their financial and legal actions for the financial year ended 31 December 2016.

13. Appointing or reappointing the auditor within the approved list of auditors at the Capital Markets Authority, subject to the mandatory change period, for the financial year ended 31 December 2017, and delegating the Board of Directors to determine his fees.

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

Independent auditors' report

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# Independent auditors' report to the shareholders of Kuwait Real Estate Company K.P.S.C.

## 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 2016, 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, consolidated financial position of the Group as at 31 December 2016, 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 other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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 matter is provided in that context.

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## Valuation of Investment properties

The Group's investment properties represent 65% of the total assets and comprise of land and buildings as well as located in Kuwait and outside. The valuation of investment properties is a significant judgment area requiring a number of assumptions including capitalization yields, future rental income, Occupancy rates, right of use contract periods and renewability and the management utilizes external valuators to support determination of the fair value, with reference to properties under development, whether or not the fair value can be reliably determined. Changes in these assumptions and judgments could lead to significant change in valuation of investment properties and consequently a change in fair value in the statement of profit or loss.
Disclosures related to assumptions are significant in supporting the assumptions and sensitivity of estimates of the fair value and due to complexity of making assessments of the fair value of investment properties and significance of disclosures related to the assumptions used, we consider this matter as one of the key audit matters.

The Group's disclosures about its investment properties are included in Note 10. Our audit procedures included assessing the appropriateness of management's process for reviewing and assessing the work of the external valuators and their valuations including managements consideration of competence and independence of the external valuators. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management and independent valuators challenging the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties. We also obtained the underlying information provided by management to the independent valuators in relation to rental income and occupancy to confirm it was consistent with information obtained during our audit.

## Valuation of Available for sale investments

The Group's investments in available for sale investments represent 22% of the total assets. Due to their unique structure and terms, the valuations of these instruments are based either on external independent valuations or on entity-developed internal models and not on quoted prices in active markets. Therefore, there is significant measurement uncertainty involved in this valuation.
The management considers whether it has become aware of an objective evidence of the impairment of the fair value with regard to the unquoted shares which include many factors such as availability of financial information, the investee company's ability to meet the financial and financing requirements, which lead to impairment of the fair value. During the current year, the Group has recognized impairment losses in the available for sale investments at the amount of KD 4,868,607. Available for sale investments include debt instruments.

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

## Independent auditors' report

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The management considers the existence of objective circumstances and evidences of impairment, and the conditions and provisions of the agreements of these investments are reviewed. As a result, the valuation 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 Note 12.
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 obtaining supporting documentation and explanations to corroborate the valuations.

### Other information included in the Group's Annual Report for the year ended 31 December 2016

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report for the year ended 31 December 2016, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' 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 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, 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

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

Independent auditors' report

BDO

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Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
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Tel: +965 2242 6999
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or error. In preparing the consolidated financial statements, management of the parent company 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.

## Auditors' 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.

KUWAIT REAL ESTATE COMPANY K.P.S.C. AND SUBSIDIARIES
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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Independent auditors' report

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## 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, and by the Parent Company's Article of Incorporation and Articles of Association, as amended, that the physical count 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 Article of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business or the consolidated financial position of the Group.

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

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

Kuwait
23 March 2017

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

## Consolidated statement of profit or loss

As at 31 December 2016

| | Notes | 2016 KD | 2015 KD |
|---|---|---|---|
| **Revenue** | | | |
| Real estate rental income | | 16,158,870 | 13,646,105 |
| Real estate operating expenses | | (7,506,882) | (9,081,130) |
| **Net rental income** | | 8,651,988 | 4,564,975 |
| Bargain purchase gain | 7.1 | 663,087 | - |
| Gain on sale of investment properties | 10 | 155,799 | 1,898,328 |
| Change in fair value of investment properties | 10 | 3,881,973 | 3,520,575 |
| Share of results of associates | 13 | 80,124 | 657,666 |
| Gain on sale of available for sale investments | | 161,795 | 188,015 |
| Impairment of available for sale investments | 12 | (4,868,607) | (5,102,068) |
| Unrealised loss on investments at fair value through profit or loss | | (33,309) | (34,357) |
| Dividends income | | 436,134 | 521,042 |
| Foreign exchange gain | | 14,576 | 204,617 |
| Interest income | | 341,242 | 191,164 |
| Net loss arising from settlement of parent company's debt | | - | (209,769) |
| Reversal of provisions no longer required | 8 | - | 2,000,000 |
| Profit from subsidiary liquidation | 7 | 51,053 | 791,250 |
| Compensation to the parent company by an associate for uncollected rental income | 7.2 | 598,476 | - |
| Other income | | 607,188 | 225,550 |
| | | **10,741,519** | 9,416,988 |
| **Expenses and other charges** | | | |
| General and administrative expenses | | 1,361,683 | 1,264,482 |
| Finance costs | | 4,178,227 | 3,404,150 |
| Provision for doubtful debts from a related party | | 185,369 | 307,038 |
| **Total expenses and other charges** | | 5,725,279 | 4,975,670 |
| **Profit for the year before, KFAS, NLST and Zakat** | | 5,016,240 | 4,441,318 |
| Kuwait Foundation for the Advancement of Sciences (KFAS) | | (22,573) | (39,972) |
| National Labour Support Tax (NLST) | | (125,406) | (111,033) |
| Zakat | | (50,162) | (44,413) |
| **Profit for the year** | | 4,818,099 | 4,245,900 |
| **BASIC EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (FILS)** | 9 | 5.32 | 4.69 |



The notes set out on pages 64 to 118 form an integral part of this consolidated financial statements.

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

## Consolidated statement of profit or loss and other comprehensive income

As at 31 December 2016

| | 2016 | 2015 |
|---|---|---|
| | KD | KD |
| **Profit for the year** | 4,818,099 | 4,245,900 |
| Other comprehensive/(loss) income: | | |
| Items that will be reclassified subsequently to consolidated statement of Profit or loss | | |
| Available for sale investments: | | |
| - Net change in fair value | (5,105,652) | (4,930,975) |
| - Transferred to consolidated statement of profit or loss on sale | 70,946 | (31,958) |
| - Transferred to consolidated statement of profit or loss on value impairment | 4,868,607 | 5,102,068 |
| Exchange differences arising on translation of foreign currency | 72,691 | 435,532 |
| Total other comprehensive (loss)/income | (93,408) | 574,667 |
| **Total comprehensive income for the year** | 4,724,691 | 4,820,567 |

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

## Consolidated statement of financial position

As at 31 December 2016

| | Notes | 2016 KD | 2015 KD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipments | | 1,825,675 | 590,637 |
| Investment properties | 10 | 164,728,737 | 142,651,795 |
| Properties under development | 11 | 310,634 | 227,715 |
| Available for sale investments | 12 | 55,585,600 | 58,299,847 |
| Investments in associates | 13 | 8,296,379 | 8,331,734 |
| **Total non-current assets** | | 230,747,025 | 210,101,728 |
| **Current assets** | | | |
| Trading properties | 14 | 13,139,105 | - |
| Due from related parties | 15 | 1,684,124 | 11,104,431 |
| Accounts receivable and other debit balances | 16 | 4,437,665 | 3,992,834 |
| Investments at fair value through profit or loss | | 39,234 | 72,543 |
| Term deposit | | 98,448 | 98,448 |
| Cash and cash equivalents | 17 | 3,480,026 | 10,053,360 |
| **Total current assets** | | 22,878,602 | 25,321,616 |
| **Total Assets** | | 253,625,627 | 235,423,344 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 18 | 90,671,294 | 90,671,294 |
| Share premium | 18 | 3,425,191 | 3,425,191 |
| Treasury shares | 19 | (208,149) | (208,149) |
| Treasury shares reserve | 19 | 2,298,155 | 2,298,155 |
| Statutory reserve | 20 | 14,846,707 | 14,345,083 |
| Voluntary reserve | 20 | 2,690,552 | 2,188,928 |
| Foreign currency translation reserve | | 540,936 | 468,245 |
| Fair value reserve | | 6,462,253 | 6,628,352 |
| Retained earnings | | 11,193,788 | 7,378,937 |
| **Total equity attributable to the shareholders of the Parent Company** | | 131,920,727 | 127,196,036 |
| Non-controlling interests | 7.3 | - | 19 |
| **Total Equity** | | 131,920,727 | 127,196,055 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Credit facilities | 21 | 84,931,683 | 76,335,754 |
| Term loans | 22 | - | 642,200 |
| Lease contracts commitment | 23 | 1,531,625 | 2,297,432 |
| Provision for employees' end of service benefits | | 1,131,242 | 998,256 |
| **Total non-current liabilities** | | 87,594,550 | 80,273,642 |



The notes set out on pages 64 to 118 form an integral part of this consolidated financial statements.

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

## Consolidated statement of financial position

As at 31 December 2016

| | | | |
|---|---|---|---|
| **Current liabilities** | | | |
| Due to related parties | 15 | 7,495,834 | 946,512 |
| Credit facilities– current portion | 21 | 1,108,518 | 1,250,000 |
| Term loans – current portion | 22 | - | 3,771,000 |
| Lease contracts commitment – current portion | 23 | 5,808,954 | 7,109,438 |
| Accounts payable and other credit balances | 24 | 16,323,984 | 10,171,560 |
| Due to Bank | | 3,373,060 | 4,705,137 |
| **Total current liabilities** | | 34,110,350 | 27,953,647 |
| **Total Liabilities** | | 121,704,900 | 108,227,289 |
| **Total Equity and Liabilities** | | 253,625,627 | 235,423,344 |

Ibrahim Saleh Al Tharban
Chairman

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

## Consolidated statement of changes in equity

As at 31 December 2016

| | Equity attributable to shareholders of the Parent Company | | | | | | | | | | Non-controlling interests KD | Total KD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Non-controlling interests KD |
| Balance at 31 December 2014 | 90,671,294 | 3,425,191 | (208,149) | 2,298,155 | 13,900,951 | 1,744,796 | 32,713 | 6,489,217 | 8,547,997 | 126,902,165 | 72,612 | 126,974,777 |
| Profit for the year | - | - | - | - | - | - | - | - | 4,245,900 | 4,245,900 | - | 4,245,900 |
| Other comprehensive income | - | - | - | - | - | - | 435,532 | 139,135 | - | 574,667 | - | 574,667 |
| Total comprehensive income for the year | - | - | - | - | - | - | 435,532 | 139,135 | 4,245,900 | 4,820,567 | - | 4,820,567 |
| Transferred to reserves | - | - | - | - | 444,132 | 444,132 | - | - | (888,264) | - | - | - |
| Net movement in non-controlling interest | - | - | - | - | - | - | - | - | - | - | (72,593) | (72,593) |
| Cash dividend | - | - | - | - | - | - | - | - | (4,526,696) | (4,526,696) | - | (4,526,696) |
| **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 |
| 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) | - | - | - |
| Net movement in non-controlling interest | - | - | - | - | - | - | - | - | - | - | (19) | (19) |
| **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** |



The notes set out on pages 64 to 118 form an integral part of this consolidated financial statements.

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

## Consolidated statement of cash flows

As at 31 December 2016

| | Notes | 2016<br>KD | 2015<br>KD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit for the year** | | 4,818,099 | 4,245,900 |
| **Adjustments:** | | | |
| Depreciation | | 41,147 | 38,920 |
| Bargain purchase gain | 7.1 | (663,087) | - |
| Finance costs | | 4,178,227 | 3,404,150 |
| Gain on sale of investment properties | 10 | (155,799) | (1,898,328) |
| Change in fair value of investment properties | 10 | (3,881,973) | (3,520,575) |
| Share of results of associates | 13 | (80,124) | (657,666) |
| Gain on sale of available for sale investments | | (161,795) | (188,015) |
| Impairment of available for sale investments | 12 | 4,868,607 | 5,102,068 |
| Unrealised loss from investments at fair value through profit or loss | | 33,309 | 34,357 |
| Provision for doubtful debts from Related Party | | 185,369 | 307,038 |
| Dividends income | | (436,134) | (521,042) |
| Net loss arising from settlement of parent company debt | | - | 209,769 |
| Interest income | | (341,242) | (191,164) |
| Compensation to the parent company by an associate for uncollected rental income | 7.2 | (598,476) | - |
| Reversal of provision no longer required | 8 | - | (2,000,000) |
| Profit from subsidiary liquidation | 7 | (51,053) | (791,250) |
| Provision for employees' end of service benefit | | 186,163 | 230,696 |
| Lease contracts commitment | | 4,277,332 | 4,277,332 |
| | | 12,218,570 | 8,082,190 |
| **Changes in operating assets and liabilities:** | | | |
| Due from related parties | | 4,736,997 | (3,036,847) |
| Accounts receivable and other debit balances | | (97,612) | 1,400,272 |
| Accounts payable and other credit balances | | 119,504 | (6,197,043) |
| Due to related parties | | 819,802 | 790,361 |
| Paid Lease contracts commitments | | (6,343,623) | (7,109,438) |
| Employees' end of service benefit paid | | (71,763) | (24,997) |
| **Net cash from/(used in) operating activities** | | 11,381,875 | (6,095,502) |

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

## Consolidated statement of cash flows

As at 31 December 2016

| | Notes | 2016<br>KD | 2015<br>KD |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of properties and equipments | | (1,089,336) | (532,460) |
| Proceeds from sale of property and equipments | | 9,602 | 6,750 |
| Paid to properties under development | | (1,182,820) | (1,552,906) |
| Purchase of investment properties | 10 | (6,089) | (1,088,149) |
| Proceeds from sale of investment properties | 10 | 1,086,595 | 8,981,868 |
| Dividends received from associates | 13 | 115,479 | 303,451 |
| Net Cash Paid for acquisition of subsidiaries | | (8,646,481) | - |
| Purchase of available for sale investments | | (5,557,924) | (12,046,743) |
| Proceeds from sale of available for sale investments | | 629,746 | 1,807,793 |
| Restricted bank balance | | (321,020) | - |
| Net movement of term deposits | | - | 1,210,749 |
| Proceeds from liquidation of a subsidiary | 7 | 51,053 | 791,250 |
| Dividends income received | | 436,134 | 521,042 |
| Interest income received | | 341,242 | 191,164 |
| Acquisition of non- controlling interests in a subsidiary | | (19) | (72,593) |
| **Net cash used in investing activities** | | (14,133,838) | (1,478,784) |
| **FINANCING ACTIVITIES** | | | |
| Net change in credit facilities | | 5,702,996 | 13,093,254 |
| Net change in term loans | | (4,413,200) | (558,974) |
| Net change in due to bank | | (1,332,077) | 4,705,137 |
| Finance costs paid | | (4,178,227) | (3,404,150) |
| Cash dividends paid | | - | (3,843,490) |
| **Net cash (used in)/from financing activities** | | (4,220,508) | 9,991,777 |
| Net Foreign exchange differences | | 78,117 | 326,518 |
| Net (decrease)/increase in cash and cash equivalents | | (6,972,471) | 2,417,491 |
| Cash and cash equivalents at the beginning of the year | 17 | 10,053,360 | 7,309,351 |
| **Cash and cash equivalents at the end of the year** | 17 | 3,159,006 | 10,053,360 |
| **Non-cash transactions:** | | | |
| Acquisition of subsidiaries | | (8,206,678) | - |
| Sale of available for sale investments | 25c | 4,592,238 | - |
| Purchase of available for sale investments | 25b | (1,751,600) | - |
| Due from related parties | | 5,349,898 | - |
| Foreign currency differences | | 16,142 | - |
| Receipt of share in a local property against settling a debt from a related party | 10 | - | 812,563 |
| Receipt of shares in an associate against waiver of an investment portfolio | | - | 217,852 |



The notes set out on pages 64 to 118 form an integral part of this consolidated financial statements.

# 1. Incorporation and Activities of the Parent Company

Kuwait Real Estate Company – KPSC (Parent Company) was incorporated in 1972 as a Kuwaiti public shareholding company in accordance with the provisions of the Companies Law in the State of Kuwait.

The Parent Company's shares are listed on Kuwait Stock Exchange.

The Group comprises the Parent Company and its subsidiaries (Collectively referred to as "the Group").

The details of the subsidiaries are described in Note 7.

The main activities of the Parent Company are as follows:

- Carry out various real estate works for achieving profit, including sale, purchase, renting out and leasing of lands and real estate properties, erect buildings, prepare and implement studies of the private and public real estate projects directly or through mediation whether in Kuwait or abroad.
- Carry out various building works and related works whether for its account or for the account of third parties and import, trade in all materials related to real estate and other works related or necessary theret
- 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 authoritie.s
- 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.

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.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and published in the Official Gazette on 1 February 2016 which cancelled Law No. 25 of 2012 and its amendments thereto, as stipulated in article (5) thereto. The new Law will be effective retrospectively from 26 November 2012.

The executive regulations of Law No. 1 of 2016 issued on 12 July 2016.

This Consolidated Financial statements for the year ended 31 December 2016 were authorised for issue by the parent company's board of directors on 23 March 2017 and they are subject to the approval of the shareholders' general assembly and official authorities.

The parent company's shareholders have their right to amend these consolidated statements at the annual general assembly meeting.

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

Notes to the consolidated financial statement
As at 31 December 2016

# 2. Basis of Preparation

The accounting policies used in the preparation of the consolidated financial statements is presented below; the accounting policies used is consistent for all years presented, unless explicitly stated otherwise.

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

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

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires the use of certain significant accounting estimates and requires the Group management to take judgments in applying Group's accounting policies. Judgments and significant estimates that have been taken in the preparation of financial statements of the Group and its impact are included in note 6

# 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 IFRIC interpretation as issued by the International Financial Reporting Interpretations Committee ("IFRIC'').

# 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 2016 which have been adopted by the group but did not have any significant impact on the financial position or the results for the year. Information on these new standards is presented below:

| Standard or Interpretation | Effective for annual periods beginning |
|---|---|
| IFRS 11 Accounting for Acquisitions of Interests in Joint Operations –Amendments | 1 January 2016 |
| IAS 1 'Disclosure Initiative - Amendments | 1 January 2016 |
| IAS 27 Equity Method in Separate Financial Statements - Amendments | 1 January 2016 |

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

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

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

### IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it

will subsequently be reclassified to profit or loss.

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

### IAS 27 Equity Method in Separate Financial Statements - Amendments

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

### 4.2 IASB Standards Issued but not yet Effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's/company'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/company'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 |
|---|---|
| IAS 7 Statement of Cash Flows- Amendments | 1 January 2017 |
| 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 16 Leases | 1 January 2019 |

### 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

- 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.

### 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.

### 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.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the financial assets will need to be reviewed 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 16 Leases**

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

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

# 5. Significant Accounting Policies

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

## 5.1 Basis of Consolidations

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

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

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

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

When a non-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.

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### 5.2 Business Combinations

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

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

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

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

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

#### 5.3.1 Rental Income
Rental income is recognised on an accrual basis.

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

#### 5.3.3 Interest Income and Similar Income
Interest income and expenses are recognised on accrual basis using the effective interest method

### 5.4 Finance costs

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

### 5.5 Leases

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

**The Group as Lesser**

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

**The Group as Lessee**

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

### 5.6 Property and Equipments

Property and Equipments are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management. Property and Equipments are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of properties and equipments. 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 Equipments. Material residual value estimates and estimates of useful life are updated as required, but at least annually. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

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## Notes to the consolidated financial statement

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### 5.8 Trading Properties

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

### 5.9 Properties Under Development

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

### 5.10 Investment in Associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates. Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

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

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

### 5.12 Financial Instruments

#### 5.12.1 Recognition, Initial Measurement and Derecognition

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

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

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

(a) the Group has transferred substantially all the risks and rewards of the asset or

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

### 5.12.2 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 statement of profit or loss (FVTSI)
- available-for-sale (AFS) financial assets.

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

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

- **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.

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The Group categorises loans and receivables into following categories:

- **Trade Receivables**

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

- **Cash and Bank Balances**

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

- **Financial Assets at 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.

### 5.12.3 Classification and Subsequent Measurement of Financial Liabilities

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

as follows:

- **Trade Payables**
  Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.
- **Credit Facilities**
  Credit facilities represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.
- **Terms Loans**
  Term loans are carried on the date of consolidated statement of financial position at their principal amounts. Interests are charged as an expense as it accrues, with unpaid interests included in the other credit balances. All borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

### 5.12.4 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.

### 5.12.5 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.

5.12.6 Offsetting of Financial Instruments

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

5.12.7 Fair Value of Financial Instruments

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

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

## 5.10 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.

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

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

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

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.

## 5.11 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.

### 5.12 Financial Instruments

#### 5.12.1 Recognition, Initial Measurement and Derecognition

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

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

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

  (a) the Group has transferred substantially all the risks and rewards of the asset or

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

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

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

### 5.12.2 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 Statement of Profit or Loss (FVTSI)**
- **Available-for-Sale (AFS) Financial Assets.**

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

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

- **Loans and Receivables**

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

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

The Group categorises loans and receivables into following categories:

- Trade Receivables

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

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

- **Financial Assets at 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.

### 5.12.3 Classification and Subsequent Measurement of Financial Liabilities

The Group's financial liabilities include borrowings, credit facilities, trade and other payables.

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

- **Trade Payables**

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

- **Credit Facilities**

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

- **Terms Loans**

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

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

### 5.12.4 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.

### 5.12.5 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.

### 5.12.6 Offsetting of Financial instruments

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

### 5.12.7 Fair Value of Financial instruments

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

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

### 5.13 Equity, Reserves and Dividend Payments

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 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.

### 5.14 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.

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### 5.16 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.

### 5.17 Foreign Currency Translation

#### 5.17.1 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.

#### 5.17.2 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.

#### 5.17.3 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

### 5.18 End of Service Indemnity

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

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

### 5.19 Taxation

#### 5.19.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

#### 5.19.2 National Labour Supporting Tax

The National Labour Support Tax (NLST) is calculated at 2.5% of the group's profit in accordance with the Ministry of Finance resolution No. 24 for the year 2006 and Law No. 19 for the year 2000 As per the Law, the permitted deductions include share of results of the listed associates and cash dividends from the listed companies subject to NLST.

#### 5.19.3 Zakat

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

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# 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 statement of 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 statement of 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 trading property if it is acquired principally for sale in the ordinary course of business. The Group classifies property as property under development if it is acquired with the intention of development.

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

#### 6.1.3 Control Assessment

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

### 6.2 Estimates Uncertainty

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

#### 6.2.1 Impairment of Associates

After application of the equity method, the Group determines whether it is necessary to 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 Equity Investments

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

#### 6.2.3 Fair Value of Financial Instruments

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

#### 6.2.4 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.

# 7. Subsidiary Companies

| Subsidiary | Country of incorporation | Voting Rights and Ownership Percentage 31 Dec. 2016 | 31 Dec. 2015 | Activity |
|---|---|---|---|---|
| Habara Pearl Farm Company – American Shareholding Company | USA | 100% | 100% | Investment |
| Al-Aqdain Kuwaiti for Real Estate Development Company – KSC (Closed) | Kuwait | 96% | 96% | Real estate |
| Kuwait Financial Group Company – KSC (Holding) | Kuwait | 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) (7.1) | Lebanon | 100% | - | Real estate |
| Al-Fereej International Real Estate Company - WLL (7.2) | Kuwait | 99% | - | Real estate |

- The parent company consolidated these subsidiaries based on the financial statements prepared by the management for the year ended 31 December 2016.

- During the previous year, the parent company has agreed to voluntary liquidate Kuwait Industrial Marble Manufacturing Company- K.S.C. (Closed)(formerly a subsidiary). As a result, the parent company has received an amount of KD51,053 during the current year (2015: KD 791,250) since the Parent company had previously recorded impairment loss for all its investments value in the subsidiary (Kuwait Industrial Marble Manufacturing Company- K.S.C. (Closed)) in prior years, (where the investment was carried in the parent company's books at KD1, the full amount received from the liquidation is recorded as gain from liquidation of a subsidiary in the consolidated statement of profit or loss.

### 7.1 IFA Hotels and Resorts Co. – S.A.L (Lebanon)

During the year the parent company has increased its shares in IFA Hotels and Resorts Co.–S.A.L (Lebanon) from 49% to 100%, accordingly it has been consolidated as a wholly owned subsidiary by the parent company and the financial statements of Hotels and Resorts Co.–S.A.L (Lebanon) was consolidated based on financial statements prepared by the management as at 31 December 2016.

As per the agreement between the parent company and IFA Hotels and Resorts Co.–K.P.S.C, IFA Hotels and Resorts Co. – K.P.S.C waives 51% of its shares in IFA Hotels and Resorts Co. – S.A.L (Lebanon) in favour of the parent company. The parent company has paid the total amount due on this transaction amounting to KD7,458,763 by paying KD3,382,401 in cash and settling the balance due from IFA Hotels and Resorts Co.–S.A.L to the parent company amounting to KD4,076,362 as per the parent company records. This transaction has resulted in a gain of KD663,087 that has been recognized in the consolidated statement of profit or loss.

Below are the details of the consideration agreed upon increase contribution share and the details of the identifiable assets and liabilities of the subsidiary:

| **The Consideration Agreed Upon to Increase the Contribution Share in the Subsidiary:** | **As at 1 October 2016** KD |
|---|---|
| - Cash amount on signing the contract | 3,382,401 |
| - Settlement of the balance due from IFA Hotels and Resorts Co.–S.A.L to the parent company | 4,076,362 |
| Total consideration agreed upon to purchase IFA Hotels and Resorts Co.–S.A.L (the new subsidiary). | 7,458,763 |
| Net value of the identifiable assets of the new subsidiary at the acquisition date | (8,121,850) |
| Gain resulting from acquisition of a subsidiary | 663,087 |

| **Details of the Identifiable Assets and Liabilities of the New Subsidiary at the Acquisition Date** | **As at 1 October 2016** KD |
|---|---|
| Property and Equipments | 196,451 |
| Trading properties (Note 14) | 13,139,105 |
| Available for sale investments | 71,124 |
| Due from related parties | 252,481 |
| Accounts receivable and other debit balances | 68,848 |
| Cash and cash equivalents | 323,351 |
| Due to related parties | (12,830) |
| Accounts payable and other credit balances | (3,146,643) |
| Credit facilities | (2,751,451) |
| Provision for employees' end of service benefits | (18,586) |
| Net value of the identifiable assets of the new subsidiary at the acquisition date | 8,121,850 |

The date of acquisition of the subsidiary has been determined on 1 October 2016, which is the date when the Parent Company obtained control over it. The acquisition transaction was accounted for by using the purchase price allocation method on the identifiable assets of the company.

The recognized fair value of the purchased assets and liabilities has been determined by the parent company's management.

| **Details of the Net Cash paid to Purchase Subsidiary are as Follows:** | **As of 31 December 2016** |
|---|---|
| | KD |
| Cash paid during the year | 3,382,401 |
| Acquired bank balances | (323,351) |
| Net cash paid to purchase a subsidiary | 3,059,050 |

### 7.2 Al-Fereej International Real Estate Company - WLL

At the beginning of the year, the parent company acquired all shares of Al-Fereej International Real Estate Company – WLL, which is a company fully owned previously by ABC Real Estate Company – WLL (an associate to the parent company).

The principal activities of Al-Fereej International Real Estate Company – WLL are purchasing, developing and selling investment properties, managing third parties properties, purchasing and selling shares and bonds. This subsidiary is the owner of Arabella complex –Bidaa buildings. As a result of this acquisition, the group become the sole owner of the land and buildings of Arabella complex –Bidaa, the group classifies its ownership of the land and buildings constructed thereon as an investment property within investments properties section in the consolidated statement of financial position.

As per the purchase contract of Al-Fereej International Real Estate Company – WLL (the new subsidiary), the Parent Company pay KD1,123,980 in cash for waiver of ABC Real Estate Company – WLL of its whole shares in Al-Fereej International Real Estate Company – WLL Further, the Parent Company shall pay KD12,654,171 in instalments to ABC Real Estate Company – WLL in return for replacing it as a debtor instead of ABC Real Estate Company – WLL for a debt due to ABC Real Estate Company – WLL from Al-Fereej International Real Estate Company – WLL.

The total amount due from this transaction of KD13,778,151 is paid through settlement of the balance due from ABC Real Estate Company – WLL to the parent company of KD4,130,316 as at the contract date in accordance with books of ABC Real Estate Company – WLL (amounting to KD3,531,840 according to the parent company's books before adding an amount of KD598,476 as a compensation to the parent company for uncollected real estate rent during the year) in the consolidated statement of profit or loss. As of the end of the current year, an amount of KD5,934,561 has been paid in cash, and the remaining amount of KD3,713,274 was recorded in the balance due to related parties (ABC Real Estate Company – WLL) in the consolidated statement of financial position (Note 15).

Below are the details of the consideration agreed upon to purchase the new subsidiary and the details of the identifiable assets and liabilities of the new subsidiary:

| **The Consideration Agreed Upon to Buy the New Subsidiary:** | **As at 1 January 2016** |
|---|---|
| | KD |
| - Cash amount on signing the contract | 1,123,980 |
| - Debt due to ABC Real Estate Company - WLL from the new subsidiary | 12,654,171 |
| Total consideration agreed upon to purchase Al-Fereej International Real Estate Company - WLL (the new subsidiary). | 13,778,151 |
| Settlement of the balance due from ABC Real Estate Company - WLL to the Parent Company | (4,130,316) |
| Cash payment as of the year end | (5,934,561) |
| Balance due to ABC Real Estate Company - WLL (an associate) as of the year ended | 3,713,274 |

| **Details of the Identifiable Assets and Liabilities of the New Subsidiary at the Acquisition Date:** | **As at 1 January 2016** |
|---|---|
| | KD |
| Value of buildings of Arabella Complex – Bidaa (note 10) | 18,041,343 |
| Due from other related parties | 1,000 |
| Receivables and other debit balances | 278,371 |
| Bank balances | 347,130 |
| Due to other related parties | (2,003,416) |
| Payables and other credit balances | (2,886,277) |
| Net value of the identifiable assets of the new subsidiary at the acquisition date | 13,778,151 |

The date of acquisition of the subsidiary has been determined on 1 January 2016, which is the date when the Parent Company obtained control over it. The acquisition transaction was accounted for by using purchase price allocation method. The recognized fair value of the purchased assets and liabilities has been determined by the parent company's management.

| **Details of the Net Cash Paid to Purchase the New Subsidiary are as Follows:** | **As of 31 December 2016** |
|---|---|
| | KD |
| Cash paid as of the year ended | 5,934,561 |
| Acquired bank balances | (347,130) |
| Net cash paid to purchase the new subsidiary | 5,587,431 |

### 7.3 Subsidiaries with Material non-Controlling Interests

The Group does not have subsidiaries with material non-controlling interests. No dividends have been paid to the non-controlling interests during the year ended 31 December 2016.

### 7.4 Interests in the Unconsolidated Structured Entities (NIC)

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

# 8. Reversal of Provisions No Longer Required

During the previous year, the parent company received an amount of KD1,500,000 from Public Authority for housing welfare, representing the letter of guarantee amount issued to the Authority. The parent company issued this letter earlier for the tender of low-cost houses and the letter was liquidated later by the Authority. Consequently, the provision against this amount was reversed. Also, during the previous year, the parent company has reversed provision for doubtful debts of KD500,000 against the amount due from related party of KD1,080,699 as at 31 December 2014.

# 9. Basic Earnings per Share Attributable to Shareholders of the Parent Company

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

| | Year Ended 31 Dec. 2016 | Year Ended 31 Dec. 2015 |
|---|---|---|
| Profit for the year attributable to shareholders of the parent company (KD) | 4,818,099 | 4,245,900 |
| Weighted average number of shares outstanding during the year (excluding treasury shares) (share) | 905,339,849 | 905,339,849 |
| Basic earnings per share attributable to shareholders of the parent company (Fils) | 5.32 | 4.69 |

The parent company has no potential diluted shares.

# 10. Investment Properties

| | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 2015 KD |
|---|---|---|
| **Fair Value at the Beginning of the Year** | 142,651,795 | 142,888,171 |
| Additions during the year | 6,089 | 1,900,712 |
| Transferred from properties under development (note 11) | 1,099,901 | 1,422,098 |
| Disposals during the year | (930,796) | (7,083,540) |
| Change in fair value | 3,881,973 | 3,520,575 |
| Effect of a new subsidiary consolidation (note 7.2) | 18,041,343 | - |
| Foreign currency translation difference | (21,568) | 3,779 |
| **Fair Value at the End of the Year** | 164,728,737 | 142,651,795 |

a- Fair value of the local investment properties was estimated by an independent, licensed and external valuator and by a local bank. Foreign investment properties was estimated by an independent, licensed and external valuator, management adopted the lowest valuation for all its investment properties on an individual basis.

b- During the year, the group sold investment properties with a total sale value of KD1,086,595 which resulted in a selling gain of KD155,799 (2015: sold amounting to KD8,981,868 resulted in a selling gain of KD 1,898,328).

c- Investment properties of KD98,300,000 (KD89,450,000 as at31 December 2015) are pledged against due to bank and credit facilities (note 21).

d- During the previous year, the Group received a 3.706% share in a local property from a related party, with a total value of KD812,563 against settling portion of the debt receivable from related party (Note 25). This property represents a right of use of a land located in Al-Dubaiya area and leased from the Ministry of Finance in Kuwait. The Group has signed an agreement with the other joint-owners of the property to manage and develop the property through a real estate portfolio manager which is a specialized company in the field of real estate investments (a joint-owner of the property).

# 11. Properties Under Development

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

| | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 2015 KD |
|---|---|---|
| As at 1 January | 227,715 | 96,907 |
| Addition during the year | 1,182,820 | 1,552,906 |
| Transferred to investment properties (note 10) | (1,099,901) | (1,422,098) |
| As at 31 December | 310,634 | 227,715 |

# 12. Available for Sale Investments

| | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|
| Local quoted securities | 15,417,032 | 16,978,085 |
| Local unquoted securities | 11,948,071 | 9,669,609 |
| Foreign unquoted securities | 19,094,212 | 22,883,498 |
| Debt instruments (b-below) | 9,067,385 | 8,693,722 |
| Managed funds | 58,900 | 74,933 |
| | **55,585,600** | **58,299,847** |

a- The Group's management recognized an impairment loss for certain available for sale investments amounting to KD4,868,607 (KD5,102,068 for the year ended 31 December 2015) carried in the consolidated statement of profit or loss. The management has made an analysis for the relevant remaining available for sale investments which indicates no further impairment in their value.

b- Debt instruments represent promissory notes to foreign companies, interest rate ranging between 9% to 11%.

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# 13. Investments in Associates

| Company Name | Country of Incorporation | Voting Rights and Ownership Percentage (%) 31 Dec. 2016 % | 31 Dec. 2015 % | Activity |
|---|---|---|---|---|
| Kuwait Building Materials Manufacturing – KPSC | Kuwait | 24.58 | 24.58 | Manufacturing |
| National Slaughters Houses – KPSC | Kuwait | 44.22 | 44.22 | Consumer goods |
| First Slaughters Company – KSC | Kuwait | 20.51 | 20.51 | Consumer goods |
| ABC Real Estate Company – WLL | Kuwait | 49 | 49 | Real estate |
| IFA Hotels and Resorts Co. – SAL (*) | Lebanon | - | 49 | Real estate |

(*) During the year the Parent company has increased its share in IFA Hotels and Resorts Co.–S.A.L (Lebanon) from 49% to 100%, accordingly it has become a fully owned subsidiary by the parent company and it has been consolidated as a subsidiary (note 7.1), group's share of results of this company has been recognized by its share as an associate till the date of acquisition 1 October based on financial information prepared by management for the nine month ended 30 September 2016.

## 13.1 Following is the Movement for the Investments in Associates During the Year:

| | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 2015 KD |
|---|---|---|
| Balance at the beginning of the year | 8,331,734 | 7,759,667 |
| Additions during the year | - | 217,852 |
| Dividends received during the year | (115,479) | (303,451) |
| Share in results of the year | 80,124 | 657,666 |
| **Balance at the end of the year** | 8,296,379 | 8,331,734 |

13.2 Summary of the Financial Information of the Associates

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

**a) ABC Real Estate Company – W.L.L**

| | Period Ended 30 Sept. 2016 KD | Period Ended 30 Sept. 2015 KD |
|---|---|---|
| Revenue | 562,930 | 3,182,548 |
| Expenses for the period | 491,949 | 2,363,587 |
| Profit for the period | 70,981 | 818,961 |
| Total comprehensive income for the period | 70,981 | 818,961 |
| Group's share in the results of the associate | 34,780 | 401,291 |

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

| | 2016 KD | 2015 KD |
|---|---|---|
| Share of the Group's ownership (%) | 49 | 49 |
| Net assets of the associate | 9,926,212 | 9,817,273 |
| Group's share of net assets | 4,863,844 | 4,810,464 |
| Carrying value | 4,863,844 | 4,810,464 |

The remaining associates are individually considered immaterial to the Group.

The following is the aggregate information of the immaterial associates as at 2016 and 2015:

| | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 2015 KD |
|---|---|---|
| Group's share of income or loss | 45,344 | 256,375 |
| Group's share of other comprehensive income | - | - |
| Group's share of the total comprehensive income | 45,344 | 256,375 |
| Total book value of the group's share of ownership in these associates | 3,432,535 | 3,521,270 |

Dividends received from these associates during the year amounted to KD115,479 (2015: KD303,451).

# 14. Trading Properties

The movement for the trading properties are as follows:

| | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 2015 KD |
|---|---|---|
| **As at 1 January** | - | - |
| Effect of a new subsidiary consolidation (note 7.1) | 13,139,105 | - |
| **As at 31 December** | 13,139,105 | - |

a. Trading properties include lands in Lebanon by an amount of KD4,419,360 pledged against credit facilities granted to the group (note 21).

b. Trading properties include lands in Lebanon by an amount of KD512,254 that has been acquired, however lands still in the name of the original owner and have not been recongised in favour of the group upto date of these consolidation financial statements. Legal formalities are in the process to complete ownership transfer to the group.

c. Trading properties amounting to KD9,696,150 has been agreed to be sold, selling hasn't been completed during the year ended 31 December 2016, the group has received advances form customers amounting to KD2,912,078 (Note 24).

# 15. Due from/to Related Parties

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Due from related parties: | | |
| ABC Real Estate Company - WLL (Associate Company) | - | 6,488,369 |
| IFA Hotels and Resorts Company – S.A.L (Associate Company) | - | 4,803,039 |
| International Financial Advisers CO – KPSC | 229,053 | 312,177 |
| International resorts Company – KPSC | 944,722 | 268,336 |
| Due from other related parties | 510,349 | 278,905 |
| Provision for doubtful debts | - | (1,046,395) |
| Total | 1,684,124 | 11,104,431 |
| Due to related parties: | | |
| ABC Real Estate Company - WLL (Associate Company) | 6,908,724 | - |
| IFA for Advisory Services Co- WLL | 187,498 | 56,868 |
| Due to other related parties | 399,612 | 889,644 |
| Total | 7,495,834 | 946,512 |

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# 16. Accounts Receivable and Other Debit Balances

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Accounts receivable | 3,557,745 | 3,506,448 |
| Provision for doubtful debts | (800,000) | (800,000)v |
| | 2,757,745 | 2,706,448 |
| Prepaid expenses | 117,309 | 55,799 |
| Refundable deposits | 427,962 | 35,484 |
| Other debit balances | 1,134,649 | 1,195,103 |
| | 4,437,665 | 3,992,834 |

# 17. Cash and Cash Equivalents

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Cash and bank balances | 3,132,354 | 5,647,824 |
| Cash in investment portfolios managed by others | 347,672 | 5,536 |
| Term deposits (maturing within three months from placement date) | - | 4,400,000 |
| Cash and cash equivalents | 3,480,026 | 10,053,360 |
| Less: Restricted bank balances | (321,020) | - |
| Cash and cash equivalents for the purpose of the consolidated statement of cash flows | 3,159,006 | 10,053,360 |

Cash and bank balances include an amount of KD 321,020 restricted against unpaid portion of principal and interest relating to facilities granted to a subsidiary from foreign banks (Note 21).

# 18. Capital and Share premium

At 31 December 2016 and 31 December 2015, the authorized, issued and fully paid up share capital of the parent company comprised of 906,712,940 shares of 100 fils each. All shares are cash shares.

Share premium balance is not available for distribution.

# 19. Treasury Shares

At 31 December 2016, the parent company held 1,373,091 shares of its treasury shares equivalent to 0.151% of the total issued shares (31 December 2015: 1,373,091 treasury shares equivalent to 0.151%). The market value of the treasury shares amounted to KD 83,759 (31 December 2015: KD72,774). Reserves equivalent to the cost of the treasury shares have been determined as non-distributable.

# 20. Statutory and Voluntary Reserve

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

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

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

# 21. Credit Facilities

| | | | Maturing date | | |
|---|---|---|---|---|---|
| | **Amount** | **Annual Profit rate** | Within a year | Over one year | **Mortgages Provided** |
| | KD | % | KD | KD | |
| Working Capital financing Murabaha | 57,703,473 | 2.4 | - | 57,703,473 | 16 properties of the Group's properties in the State of Kuwait |
| Islamic Murabaha (a) | 25,625,000 | 2.25 | - | 25,625,000 | Mortgage of -Pearl Mazouq property |
| Foreign banks (b) | 2,711,728 | 1-1.85 | 1,108,518 | 1,603,210 | |
| **Balances as at 31 December 2016** | **86,040,201** | | **1,108,518** | **84,931,683** | |
| Balances as at 31 December 2015 | 77,585,754 | | 1,250,000 | 76,335,754 | |

a- During the year the parent company signed an agreement to reschedule and increase credit facilities limit to an amount of KD33,000,000 with a grace period till June 2018 to settle the installments.

b- Credit facilities from foreign banks has been obtained by IFA Hotels and Resorts Co. – S.A.L (Lebanon) (Subsidiary) at it is secured by :

- Land mortgage (classified as Trading properties) (Note 14).
- Pledging of shares in its subsidiaries in favor of foreign banks.
- Restricted cash against unpaid portion principal debt and interest due (Note17).

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

d- Foreign banks profit rates are over the associations of banks in Lebanon discount rate.

# 22. Term Loans

Term loan has been granted to the Group by foreign banks operating outside the state of Kuwait and carry an annual interest rate of 4% (ranging from 4%- 5% 31 December 2015) annually.

Term loans have been presented in the consolidated financial position as follows:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| **Non- Current portion** | - | 642,200 |
| **Current portion** | - | 3,771,000 |
| | - | 4,413,200 |

During the year, all outstanding commercial loans balances due from the group have been paid.

# 23. Lease Contracts Commitment

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

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

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# 24. Accounts Payable and Other Credit Balances

The movement for the trading properties are as follows:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Accounts payable | 4,168,263 | 3,692,228 |
| Payment from customers on sale of trading properties | 2,912,078 | - |
| Rent collected in advance | 2,827,061 | 424,560 |
| Accrued expenses and leave | 705,999 | 448,095 |
| Kuwait Foundation for the Advancement of Science | 22,573 | 39,972 |
| National Labour Support Tax | 2,844,703 | 2,719,297 |
| Zakat | 284,374 | 234,212 |
| Dividends payable | 1,785,820 | 1,880,129 |
| Other credit balances | 773,113 | 733,067 |
| | 16,323,984 | 10,171,560 |

# 25. Related Parties Transactions

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:

| | Note | 31 Dec. 2016 KD | 31 Dec. 2015 KD |
|---|---|---|---|
| **Consolidated Statement of Financial Position:** | | | |
| Purchase of available for sale investment (b-below) | | 6,819,720 | 1,496,595 |
| Sale of available for sale investments (c-below) | | 4,592,238 | - |
| Receipt of a share in a local property against settling a due from a related party | 10d | - | 812,563 |
| Receipt of shares in an associate against waiver of an investment portfolio | | - | 217,852 |
| Due from related parties | 15 | 1,684,124 | 11,104,431 |
| Due to related parties | 15 | 7,495,834 | 946,512 |

a. Investments amounting to KD2,511,325 (KD2,628,745 in 31 December 2015) are managed by a related party.

b. Available for sale investments amounting to KD6,819,720 have been purchased from related parties against cash payments of KD5,068,120 and Settlement of due from related party by an amount of KD1,751,600.(2015: purchase of investments amounting to KD1,496,595 from a related party).

c. Available for sale investments amounting to KD4,592,238 have been sold to related party against settlement of a due from related party.

| | Note | Year Ended 31 Dec. 2016 KD | Year Ended 31 Dec. 3015 KD |
|---|---|---|---|
| **Consolidated Statement of Profit or Loss:** | | | |
| Real estate operating expenses | | 417,380 | 510,332 |
| General and administrative expenses | | 255,000 | 205,000 |
| Profit from sale of Available for sale investment (e-below) | | - | 120,216 |
| Compensation to the parent company by an associate for uncollected rental income | 7.2 | 598,476 | - |
| Interest income | | 341,242 | 157,788 |
| Net loss arising from settlement of parent company debt | | - | (209,769) |
| Provision no longer required | 8 | - | 500,000 |
| Provision for doubtful debts | | 185,369 | 307,038 |
| Key management compensation: | | | |
| Salaries and short-term benefits | | 143,077 | 143,077 |
| Employees' end of service benefit | | 26,000 | 26,000 |

d. During the previous year the Parent company received a share in a local property with a value of KD812,563 (Note 10d) against settling a portion of the debts receivable from the related party of KD1,080,699 as at 31 December 2014. Accordingly, the parent company reversed the provision for doubtful debts of KD500,000 formed against that amount (Note 8).

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e. During the previous year, the Parent company waived its ownership of investment portfolio managed by a related party, to the same related party managing this portfolio against cash and shares in an associate. This wavier transaction resulted in a gain of KD120,216 that was included in a gain on sale of available for sale investments in the consolidated statement of profit or loss.

# 26. Proposed Dividends DIstribution

The Board of Directors of the parent company proposed not to distribute any dividends for the financial year ended 31 December 2016 and this proposal is subject to approval by shareholders general assembly (not to distribute any dividends for the year ended 31 December 2015).

# 27. 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** | **Investment** | **Non-Distributable** | **Total** |
|---|---|---|---|---|
| | KD | KD | KD | KD |
| Year Ended 31 December 2016: | 20,040,843 | 2,280,858 | 828,616 | 23,150,317 |
| Total income | 6,964,481 | (2,546,698) | 400,316 | 4,818,099 |
| Profit/(loss) for the year | | | | |
| **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 |
| **Year ended 31 December 2015:** | | | | |
| Total income | 20,565,008 | 2,691,349 | 587,954 | 23,844,311 |
| Profit/(loss) for the year | 6,579,728 | (3,461,882) | 1,128,054 | 4,245,900 |
| **As of 31 December 2015:** | | | | |
| Total assets | 147,462,981 | 66,704,124 | 21,256,239 | 235,423,344 |
| Total liabilities | 96,110,961 | 10,171,560 | 1,944,768 | 108,227,289 |
| Net assets | 51,352,020 | 56,532,564 | 19,311,471 | 127,196,055 |

# 28. Risk Management Objectives and Policies

The company's activities expose it to variety of financial risks: e.g. market risk, credit risk and liquidity risk. The board of director's policies for reducing each of the risks are discussed below. The company 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.

### 28.1 Market Risk

#### (a) Foreign Rurrency Risk

The company mainly operates in the GCC, other Middle Eastern countries, the United States and other countries, and thus is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar and Euro. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities and net investments in foreign operations. To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

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

| | 31 Dec. 2016<br>KD | 31 Dec. 2015<br>KD |
|---|---|---|
| United State Dollar | 36,904,628 | 29,310,922 |
| Euro | 612,069 | 525,851 |
| GBP | 2,019,643 | 1,942,331 |
| UAE Dirham | 18,319,165 | 20,306,408 |

The foreign currency sensitivity is determined based on 2% (2015: 2%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis. If the Kuwaiti Dinar had strengthened against the foreign currencies, assuming the above sensitivity, then this would have the following impact on the results for the year:

| | **31 Dec. 2016** | **31 Dec. 2015** |
|---|---|---|
| | KD | KD |
| Results for the Year | 512,337 | 449,395 |
| Equity | 613,536 | 592,316 |

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

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

### (b) Interest Rate Risk

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

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

The following table illustrates the sensitivity of the result for the year and equity to a reasonably possible change in interest rates of +5% and –5% (2011: +5% and –5%) retrospectively from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition and rates. The calculations are based on the group's financial instruments held at the end of the year, while all other variables are held constant. There is no impact on the group's equity.

| | **2016** | **2015** |
|---|---|---|
| | +5% | +5% |
| | KD | KD |
| Results for the Year | **208,911** | **197,406** |

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

### (c) Price Risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as at fair value through statement of 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 company.

The below table shows the sensitivity analysis for the group with regard to its investment securities, and it is determined based on possible price risks at the 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% (2015: 5%) higher, the effect on the result for the year and equity would have been as follows.

| | Result for the Year | | Equity | |
|---|---|---|---|---|
| | 31 Dec. 2016 | 31 Dec. 2015 | 31 Dec. 2016 | 31 Dec. 2015 |
| | KD | KD | KD | KD |
| Investments at fair value through profit or loss | 1,962 | 3,627 | - | - |
| Available for sale investments | - | - | 2,735,779 | 2,871,491 |
| | 1,962 | 3,627 | 2,735,779 | 2,871,491 |

If prices of financial securities had been 5% (2015: 5%) lower, the effect on the results for the year and equity would have been equally the reverse as disclosed above.

## 28.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group credit policy regarding exposure to credit risk requires monitoring these risks on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of clients in specific locations or businesses through diversification of its activities. It also obtains security when appropriate. The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the consolidated financial position date, as summarized below:

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Available for sale investments | 55,585,600 | 58,299,847 |
| Due from related parties | 1,684,124 | 11,104,431 |
| Accounts receivables and other debit balances (except for prepaid expenses) | 4,320,356 | 3,937,035 |
| Investments at fair value through statement of profit or loss | 39,237 | 72,543 |
| Term deposits | 98,448 | 98,448 |
| Cash and cash equivalents | 3,480,026 | 10,053,360 |
| | 65,207,791 | 83,565,664 |

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### 28.3 Liquidity Risk

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

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

**Maturity profile of liabilities at 31 December 2016 and 2015:**

| | 1 - 3 months<br>KD | 3 - 12 months<br>KD | 1-5 years<br>KD | Over 5 years<br>KD | Total<br>KD |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| **Liabilities** | | | | | |
| Credit facilities | - | 1,108,518 | 84,931,683 | - | 86,040,201 |
| Lease contracts commitment | - | 5,808,954 | 1,531,625 | - | 7,340,579 |
| Due to related parties | - | 7,495,834 | - | - | 7,495,834 |
| Accounts payable and other credit balances | - | 16,323,984 | - | - | 16,323,984 |
| Due to bank | 3,373,060 | - | - | - | 3,373,060 |
| | 3,373,060 | 30,737,290 | 86,463,308 | - | 120,573,658 |

| | | | | | |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| **Liabilities** | | | | | |
| Credit facilities | 657,031 | 657,031 | 57,120,461 | 23,127,500 | 81,562,023 |
| Term loans | - | 3,940,695 | - | 671,099 | 4,611,794 |
| Lease contracts commitment | 4,812,000 | 2,297,438 | 2,297,432 | - | 9,406,870 |
| Due to related parties | 57,846 | 888,666 | - | - | 946,512 |
| Accounts payable and other credit balances | - | 10,171,560 | - | - | 10,171,560 |
| Due to bank | 4,787.477 | - | - | - | 4,787,477 |
| | 10,314,354 | 17,955,390 | 59,417,893 | 23,798,599 | 111,486,236 |

### 28.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2016 and 2015 are as follows:

| As of 31 December 2016 | Kuwait KD | Other Middle Easters Countries KD | United States, Europe and other countries KD | Total KD |
|---|---|---|---|---|
| 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 debit balances | 3,954,132 | - | 483,533 | 4,437,665 |
| Investments at fair value through statement of profit or loss | 15,881 | - | 23,353 | 39,234 |
| Term deposits | 98,448 | - | - | 98,448 |
| Cash and cash equivalents | 2,757,040 | 80,018 | 642,968 | 3,480,026 |
| | 35,421,843 | 731,061 | 29,172,193 | 65,325,097 |

| As of 31 December 2015 | Kuwait KD | Other Middle Easters Countries KD | United States, Europe and other countries KD | Total KD |
|---|---|---|---|---|
| Available for sale investments | 26,647,694 | 5,050,172 | 26,601,981 | 58,299,847 |
| Due from related parties | 7,104,587 | 3,756,644 | 243,200 | 11,104,431 |
| Accounts receivable and other debit balances | 3,959,026 | - | 33,808 | 3,992,834 |
| Investments at fair value through statement of profit or loss | 49,190 | - | 23,353 | 72,543 |
| Term deposits | 98,448 | - | - | 98,448 |
| Cash and cash equivalents | 9,544,175 | 424,908 | 84,277 | 10,053,360 |
| | 47,403,120 | 9,231,724 | 26,986,619 | 83,621,463 |

# 29. Fair Value Measurement

### 29.1 Fair value Hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

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

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

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| **Financial Assets** | | |
| **Loans and Receivables at Amortised Cst:** | KD | KD |
| Due from related parties | 1,684,124 | 11,104,431 |
| Accounts receivable and other debit balances | 4,437,665 | 3,992,834 |
| Term deposits | 98,448 | 98,448 |
| Cash and cash equivalents | 3,480,026 | 10,053,360 |
| **Investments at fair value through statement of profit or loss:** | | |
| Investments at fair value through statement of profit or loss | 39,234 | 72,543 |
| **Available for sale investments:** | | |
| Available for sale investments – at fair value | 54,715,579 | 57,429,826 |
| Available for sale investments – at cost | 870,021 | 870,021 |
| | 65,325,097 | 83,621,463 |
| **Financial Liabilities** | | |
| **Financial Liabilities at Amortised Cost** | | |
| Credit facilities | 86,040,201 | 77,585,754 |
| Term loans | - | 4,413,200 |
| Lease contracts commitment | 7,340,579 | 9,406,870 |
| Provision for employees' end of service indemnity | 1,131,242 | 998,256 |
| Due to related parties | 7,495,834 | 4,705,137 |
| Accounts payable and other liabilities | 16,323,984 | 946,512 |
| Due to banks | 3,373,060 | 10,171,560 |
| | 121,704,900 | 108,227,289 |

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

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

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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 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial Assets** | KD | KD | KD | KD |
| **Investments at fair value through statement of 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 | - | - | 11,635,300 | 11,635,300 |
| Foreign unquoted securities | - | - | 18,536,962 | 18,536,962 |
| Debt instruments | - | - | 9,067,385 | 9,067,385 |
| Managed funds | - | 58,900 | - | 58,900 |
| | 15,456,266 | 58,900 | 39,239,647 | 54,754,813 |
| **Non financial assets** | | | | |
| **Investment properties** | - | - | 164,728,737 | 164,728,737 |

| 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial Assets** | KD | KD | KD | KD |
| **Investments at fair value through statement of profit or loss:** | | | | |
| Quoted securities | 72,543 | - | - | 72,543 |
| **Available for sale investments:** | | | | |
| Local quoted securities | 16,978,085 | - | - | 16,978,085 |
| Local unquoted securities | - | - | 9,356,838 | 9,356,838 |
| Foreign unquoted securities | - | - | 22,326,248 | 22,326,248 |
| Debt instruments | - | - | 8,693,722 | 8,693,722 |
| Managed funds | - | 74,933 | - | 74,933 |
| | 17,050,628 | 74,933 | 40,376,808 | 57,502,369 |
| **Non financial assets** | | | | |
| **Investment properties** | - | - | 142,651,795 | 142,651,795 |

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

Measurement at fair value

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

Level 3 fair value measurement

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

| Available for sale investments<br>Unquoted securities | 31 Dec.<br>2016 | 31 Dec.<br>2015 |
|---|---|---|
| Opening balance | 40,376,808 | 32,364,805 |
| - Additions | 7,306,085 | 11,857,837 |
| - Disposals | (4,904,870) | - |
| -Change in Fair Value | (3,538,376) | (3,845,834) |
| Closing balance | 39,239,647 | 40,376,808 |

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.

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

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

# 30. Capital Risk Management

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

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

The capital structure of the group consists of the following:

| | 31 Dec. 2016<br>KD | 31 Dec. 2015<br>KD |
|---|---|---|
| Credit facilities (Note 21) | 86,040,201 | 77,585,754 |
| Term loans (Note 22) | - | 4,413,200 |
| Due to bank | 3,373,060 | 4,705,137 |
| Less: | | |
| Term deposits | 98,448 | 98,448 |
| Cash and cash equivalents (note 17) | 3,480,026 | 10,053,360 |
| Net debt | 85,834,787 | 76,552,283 |
| Equity | 131,920,727 | 127,196,055 |
| Net debt to equity ratio | 65.06% | 60.18% |

# 31. Contingent Liabilities

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

| | 31 Dec. 2016 | 31 Dec. 2015 |
|---|---|---|
| | KD | KD |
| Issued letters of guarantee | 4,086,874 | 7,225,794 |
| Capital commitments for the maintenance, development and operating of properties | 2,167,110 | 3,861,738 |
| | 6,253,984 | 11,087,532 |

During the year ended 31 December 2013, the parent company won a contract for the project of the management, development, operation and maintenance of Souk Al-Kabeer and Souk Al-Kuwait real estate properties for a period of ten years. The final agreements have been signed on 1 October 2015 and the parent company issued letters of guarantee according to those agreements (Note 23).

According to the above mentioned agreements, the parent company has committed to maintain, develop and operate the said properties by within a period of three years from the date of the final agreements.

# 32. Comparative Figures

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

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