ANNUAL REPORT 2022

AQARAT
عقارات

شركـــة عقـــارات الكــــويت ش.م.ك.ع
Kuwait Real Estate Company K.P.S.C.

Established in 1972
Authorized Capital KD 94,736,505.900 K.D

info@aqarat.com.kw
www.aqarat.com.kw

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

Sheikh Meshaal Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE OF KUWAIT

CONTENTS

07 Board Members

09 Executive Management

10 Chairman’s Message

14 Vision and Mission

16 Corporate Social Responsibility & Sustainability Report

18 Annual Corporate General Governance Report

37 Annual Audit Committee Report

41 Related Party Transactions and Balances

42 Market Overview

49 Agenda of Ordinary General Assembly

50 Financial Statements

BOARD MEMBERS

Ibrahim Saleh Al Therban
Chairman

Talal Jassim Al Bahar
Vice Chairman and CEO

Ahmad Faisal Al Qatami
Board Member

Hamed Mohammad Al Aiban
Board Member

Marzouq Jassim Al Bahar
Board Member

Mohamed Issam Al Bahar
Board Member

Khaled Ali Al Attal
Board Member

Mishari Abdullah Al Dakhil
Board Member

EXECUTIVE MANAGEMENT

Talal Jassim Al Bahar
Vice Chairman and CEO

Bader Jassim Al Hajeri
Vice President
Property Management

Saad Nasser Al Muneefi
Vice President
Asset Management & Investor Relations

AbdulAziz AbdulRazzaq Al-Meajel
Vice President
Real Estate Development

Fahad Husam Al-Shamlan
Vice President
Investments & Acquisitions

Naser Mohammed Al-Bader
Vice President
Facilities Management

Maher S. Khalaf
Assistant Vice President
Finance

Mohammed Nouri Al-Hamad
Assistant Vice President
Human Resources and Administration

CHAIRMAN MESSAGE

Ibrahim S. Al-Therban
Chairman

Honorable Shareholders,

On my behalf and on the behalf on my colleagues, the members of the Board of Directors, I'm pleased to present to you the annual financial report of the company and its subsidiaries for the fiscal year ended on 31 December 2022 which highlights the company's important operational performance & financial statements over the year 2022.

Financial Performance:

Kuwait Real Estate Company has achieved a profit of 7.268 million Kuwaiti dinars for the financial year ended on 31 December 2022 compared to 6.251 million Kuwaiti dinars in 2021. This is equivalent to 7.92 fils per share in 2022 compared to 6.92 fils per share in 2021.

Rental Income has increased to 27.6 million Kuwaiti Dinars in comparison with 21.4 million Kuwaiti dinars in 2021. During the same period, the company has recorded an increase in operating expenses to 7.6 million Kuwait dinars in 2022 from 3.4 million Kuwaiti dinars in 2021. In addition, the company's assets increased to 360.0 million Kuwaiti dinars in comparison to 341.0 million Kuwaiti dinars in 2021.

Operating Performance:

Kuwait

Locally in Q4 -2022 the company has signed a BOT staff housing project in Sabhan for the period of 20 years with the Ministry of Finance. This project aims to solve the problem of labor accumulation in neighborhoods & private family residential areas that has led to many complications taking into consideration the nature of Kuwaiti society. The staff housing is one of the solutions proposed by the State of Kuwait to regulate the accommodation of foreign workers.The staff housing area consists of residential area, government & entertainment services.

In the year, 2023 Aqarat has incorporated a new strategy that aims to diversify the company's investments & revenues expanding into a new business line, which is health & fitness centers. This enhances the companies list of projects & achieves rewarding returns for our valued shareholders.

" Rental Income has increased to 27.600 million Kuwaiti dinars "

> “ The Company has achieved a profit of 7.268 million Kuwaiti dinars ”

Through the subsidiary company Active Holding, it opened two fitness centers in Souk Al Kuwait “Now Fitness Center Men” & “Now Fitness Center Women”. The company plans to expand and open 3 fitness centers & 7 health studios in different areas in Kuwait during 2023.

In the hotel sector, Arabella Hotel & Al Reggae Hotel are near completion and expected to open second half of 2023.

United Arab Emirates

With regard to Th8-Palm Jumeirah, the hotel has continued to perform well, with strong occupancy rates and consistent revenue growth. We attribute this success to the prime location of the hotel on Palm Jumeirah, the high level of service provided by our dedicated staff, and the luxurious amenities offered to our guests. This encouraged the company to launch its new project “Mansio at Th8” managed by Accor Hotels Worldwide. Mansio at Th8 offers residents and guests alike the finest in curated living & timeless design with distinctive construction, contemporary interiors, and a beachfront location. By selling hotel units to individual investors, we have been able to diversify our revenue streams and reduce our exposure to market fluctuations and risk associated with traditional hotel operations. This has allowed us to maximize the profitability of Th8 hotel and take advantage of the strong demand for real estate investments in Dubai.

Outside of the hospitality sector, Domus Indigo Staff Housing had a successful first full year of operations. The facility opened in the final quarter of 2021, and has since become an integral part of our company’s commitment to providing exceptional employee housing solutions in the region. The facility’s first year of operations has exceeded our expectations and has resulted in strong financial performance. We look forward to building upon the success of Domus Indigo with further developments of two new staff housing towers expected completion in first quarter of 2024.

“ Two hotels, Arabella & Al Reggae expected to open in the second half of 2023 ”

United States of America

The completion of Yotel Pad-Miami the latest addition to our portfolio had a successful first year of operations. The project consists of 31 floors & we are excited to report that the 231 residences sold for an average price of 650 dollars per square foot were handed over the second and third quarter of the year. The total sales of the residential units is more than 72.6 million US dollars. Elsewhere in Miami, construction of 501 First Street is currently underway, The 40-story, residential tower, consists of a total of 448 condominium units, ranging from 400 square foot studios to 830 square foot two-bedroom units and 95% of the units were sold.

Plans for 2023

The company will continue seeking opportunities to invest in income generating assets inside and outside of Kuwait to achieve rewarding returns for our shareholders. In addition to studying and selecting several projects to add to company’s real estate portfolio, as well as diversifying our sources of income in terms of the company’s presence in a variety of markets.

We hope to achieve rewarding returns for our shareholders in 2023 despite the continuous raise in interest rates and high-risk uncertain global environment.

Arabella Hotel - Kuwait

In conclusion

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

Chairman
Ibrahim S. Al Therban

Yotel Hotel
New York

VISION AND MISSION

VISION

To maintain our leadership position locally and regionally through continuous innovation, opportunity capitalization, experience utilization, attracting talent and team development 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 its 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 capitalization of value added opportunities.

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

Thus, AQARAT ensures that all parties objectives are aligned with our own and all resources are used to achieve and surpass these objectives.

AQARAT is committed to developing its employees and creating teams that surpass industry standards by providing an environment that empowers our team and rewards innovation.

501 Residence
Miami

CORE VALUES

Excellence: We take all necessary steps to provide the highest level of service. We deliver only excellence and aim to exceed expectations in everything we do.

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. We strive to seeing possibility instead of limitation.

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 are passionate about giving back in the communities we serve.

CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY REPORT

CORPORATE SOCIAL RESPONSIBILITY

Kuwait Real Estate Company takes a huge role in giving back to the community in different sectors. As part of the company's belief in the importance of corporate social responsibility, it continues to support "INJAZ" initiative. INJAZ is a non-profit public organization that aims to educate and develop the youth in Kuwait within the framework of the global economy. The youth in the program go through training courses related to business management, financial knowledge, and leadership. The company also supports "Kuwait Heart Foundation" in its different activities. Kuwait Heart Foundation is a non-profit organization that aims to spread awareness of heart disease supporting the treatment and prevention of heart disease among children & adults. It also takes a huge role in educating and training school student & teachers in CPR.
In the context of its constant endeavor to relieve the business owners during crises, the company launched an initiative for the shop owners affected by the huge fire in Mubarikiya Historic market. The company provided the people affected by the crisis areas & shops at minimal price for a year and a grace period up to 6 months free of charge in its building (Souk Al Kuwait & Souk Al Kabeer). Allowing them to display their goods and continue doing their business.

SUSTAINABILITY REPORT

Kuwait Real Estate Company is proud to present its first sustainability report, which highlights the company's performance in environmental, social and governance aspects for the year 2022.

Scope of the Report

- According to the instructions contained in Book Fifteen - Corporate Governance - Chapter Six - Rule Five: Establishing new system in risk management and internal control according to Article 6-1, which states the following "the Board of Directors must have the ability to understand and analyze the nature and size of any risk facing the companies activities. As well as having the knowledge in sustainability risks of environmental, social and government themes in order to limit any risks and to identify appropriate action to deal with them."
- According to the instructions contained in Book Twelve - Listing Rules - Chapter One- General provisions and scope of application- Article 17-1 Regulatory rules for the sustainability report of listed companies- Article 1-17-1 which states the following " The listed company may issue an annual report on sustainability and publish it on the website. Explaining the impact of the company's activities on the on the environment, society and the economy. As well as the opportunities and risks of the company associated within these domains and how the management manages them.
- This report is in line with the goals issued by the United Nations regarding sustainable development and Kuwait Vision 2035.
- The report covers the company's environmental, social, and governance performance for the year 2022.

ENVIRONMENTAL SUSTAINABILITY

Kuwait Real Estate Company seeks to educate employees towards incorporating sustainability into their practices and the benefits of doing so in the long term. The company reinforced the knowledge, culture, and importance of sustainability towards its operations and the preservation of natural resource. Through, reducing energy consumption, paper waste and water use, by setting controls to control wastage of the company's resources. Maintaining, such practices the company has obtained certificates in "LEED V4" – Leadership in Energy and Environmental as well as the "Gold prestigious certificate" from "U.S Green Building Council Design" for the category of Building Operation and Maintenance, for Souk Al-Kuwait and Souk Al-Kabeer building.

CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY REPORT

FINANCIAL SUSTAINABILITY

Net Profit	7.268 million KD
Total Assets	360 million KD
Shareholder Equity	127.6 million KD

COMMUNITY SUSTAINABILITY

Corporate Social Responsibility: Being part of the Kuwaiti Society, Kuwait Real Estate Company always seeks community participation in initiatives that serve it. As mentioned above in the corporate social responsibility report the company's community participation efforts during the year 2022.

NATIONAL EMPLOYMENT

Kuwait Real Estate Company encourages the employment of its eligible national citizens. Ensuring that the percentage of national employment set by the Public Authority for Manpower in private companies fulfilled according to the regulatory requirements issued in this regard.

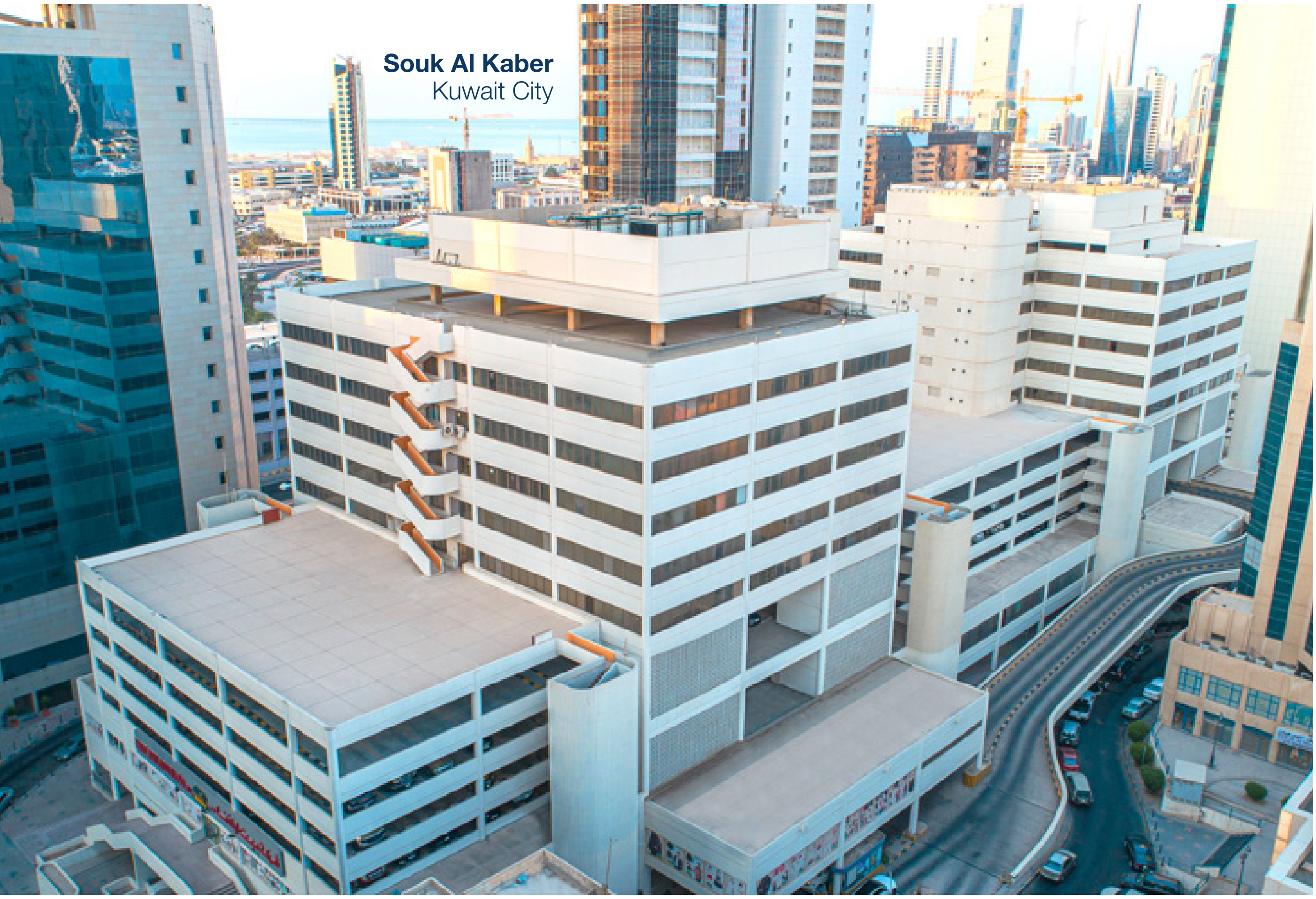
HUMAN RESOURCES

The company is committed to providing a healthy and safe workplace for employees. It strives to create an environment that enables employees to thrive and contribute to sustainability. It also provides competitive wages, benefits, opportunities for professional development and career advancement. Creating a culture of respect and diversity, and promoting fairness during recruitment procedures.

CORPORATE GOVERNANCE

Kuwait Real Estate Company is committed to maintaining the best corporate governance practices. By applying the highest standards of professional conduct, ethical values, integrity, transparency, and encouraging shareholders to participate and vote in the general assemblies. The company respects and protects the rights of shareholders. The company's Board of Directors protects and promotes the rights of stakeholders, clarifies the company's general strategy, and supervises the performance of the executive management to ensure its adherence to the best standards of corporate governance.

ANNUAL CORPORATE GOVERNANCE REPORT


Souk Al Kaber
Kuwait City

GOVERNANCE REPORT

- **About the formation of the Board of Directors**

The Board of Directors of Kuwait Real Estate Company (AQARAT) consists of 8 members. The following is a brief about them:

Name	Description of the member (Executive – Non-executive – Independent – Secretary)	Qualifications and expertise	Date of election or appointment of the secretary
Ibrahim Saleh Al-Therban	Chairman of the Board (Non-executive member)	**Bachelor of Commerce – Accounting** 47 years of experience in banking, investment, real estate and financial institutions.	18 May 2021
Talal Jasim Al-Bahar	Vice Chairman and Chief Executive Director (Executive member)	**Bachelor of Business Administration** 18 years of experience in the field of investment and real estate development.	18 May 2021
Marzouq Jasem Al-Bahar	Member of the Board (Non-executive member)	**Bachelor of Business Studies** 11 years of experience in marketing, development and business administration.	18 May 2021
Ahmad Faisal Al Qatami	Independent member	**Bachelor of Business Administration** 21 years of experience in financing and banking.	18 May 2021
Meshari Abdullah Al Dakhil	Independent member	**Bachelor of Business Management Arts** 31 years of experience in finance and commercial laws.	18 May 2021
Hamed Mohammad Al Aiban	Member of the Board (Non-executive member)	**Bachelor of Business Administration** 36 years of experience in the financial sector, investments, banking and management.	18 May 2021
Mohammad Issam Al-Bahar	Member of the Board (Non-executive member)	**Bachelor of Business Administration** 11 years of experience in management and development.	18 May 2021
Khalid Ali Al Attal	Member of the Board (Non-executive member)	**Bachelor of Business Administration** 23 years of experience in the field of investment, finance, and real estate.	18 May 2021
Amal Mohammad Al Ashab	Secretary of the Board	**Bachelor of Administrative Sciences, majoring in Finance and Banking Sciences**. 26 years of experience in secretarial work with the executive management	18 May 2021

GOVERNANCE REPORT

Meetings held by the Board during 2022

The Board of Directors of Kuwait Real Estate Company (AQARAT) held six (6) meetings in 2022. The following table shows the details of those meetings and the number of meetings attended by each member of the Board:

Member Name	Meeting No. (01/2022) held on 08.03.2022	Meeting No. (02/2022) held on 15.05.2022	Meeting No. (03/2022) held on 07.08.2022	Meeting No. (04/2022) held on 31.10.2022	Meeting No. (05/2022) held on 08.12.2022	Meeting No. (06/2022) held on 29.12.2022	Number of meetings
Ibrahim Saleh Al-Therban Chairman of the Board	✓	✓	✓	-	-	-	3
Talal Jasim Al-Bahar Vice Chairman (Executive)	✓	✓	✓	✓	✓	✓	6
Marzouq Jasem Al-Bahar Non-executive member	✓	✓	✓	✓	✓	✓	6
Hamed Mohammad Al Aiban Non-executive member	-	✓	✓	✓	✓	✓	5
Ahmad Faisal Al Qatami Independent member	✓	✓	✓	✓	✓	✓	6
Meshari Abdullah Al Dakhil Independent member	✓	✓	✓	✓	✓	✓	6
Mohammad Issam Al-Bahar Non-executive member	✓	✓	✓	-	✓	✓	5
Khalid Ali Al Attal Non-executive member	✓	✓	✓	✓	✓	✓	6
Amal Mohammad Al Ashab Secretary of the Board	✓	✓	✓	✓	✓	✓	6

– Marked with ✓ in case a member of the Board of Directors attends the meeting.

- **Implementation of the requirements of registration and coordination and keeping minutes of meetings of the Company's Board of Directors.**

The Secretary of the Board shall establish a special register for the minutes of the Company's Board meetings, and special registers for the minutes of the Board's committees meetings. Each register includes information of the agenda, date, place, and the start and closing hours of each meeting. Each meeting is serially saved per each year. Additionally, special files were established to maintain the minutes of meetings as well as any discussions and deliberations.
Members of the Board and Board Committees are provided with the agenda of each meeting supported by the relevant documents within a sufficient time to allow members of the Board to examine the agenda items. Minutes of the meeting are signed by all the attending members. Minutes of meetings conducted by circulation shall are signed by all members of the Board.

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

GOVERNANCE REPORT

- **Acknowledgment by the independent member that he meets the controls of independence:**

The independent members signed the declaration that they meet the conditions for independence as stated in Article (2-3) of Chapter Three of Book Fifteen (Corporate Governance) of the Executive Regulations of Law No. (7) of 2010 regarding the Establishment of the Capital Markets Authority and the Regulation of Securities Activity and their amendments, and that they have the expertise and technical qualifications suitable for the company's activity. (A copy of the declaration is attached herewith).

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

Policy of the Board of Directors:

The approved guide of the Company's Board of Directors states that the Company's Board of Directors bears overall responsibility for Kuwait Real Estate Company, including setting strategic goals and risks, governance standards and the responsibility for overseeing the executive management and maintaining the interests of shareholders, creditors, employees and all stakeholders. It also states that the Board of Directors must ensure that the Company is managed in a prudent manner and according to the framework of the laws and instructions in force issued by the supervisory authorities, as well as the Company's Articles of Association and internal regulations and policies.

Tasks and responsibilities of the Board include the following:

1. The Board of Directors of Kuwait Real Estate Company shall have all the powers and authorities necessary to manage the Company without exceeding the terms of reference of the General Assembly. The Board of Directors shall remain responsible for all the committees deriving therefrom including the Board's responsibility for preparing the annual report which shall be read to the annual General Assembly of the Company stating the information and data of the Company's activity, financial position, business results and extent of compliance with the governance rules, and encouraging constructive relations and active participation between the Board of Directors and the Executive Management, and creating a culture that encourages constructive criticism.
2. The Board shall exercise its tasks with responsibility, good faith, seriousness and care. Decisions of the Board shall be based on adequate information from the Executive Management or any other reliable source. The Board shall have the right to issue delegations of some of its terms of reference without such delegations being general or unlimited in duration. The Board's responsibility shall remain valid with regard to any delegation thereof.
3. The Board shall ensure that the Executive Management provides the current and potential shareholders and the investment community with all information related to the Company's businesses and activities and the most important developments. It shall also verify that the annual report and financial reports that are published and sent to shareholders reflect the true situation of the Company.
4. Ensuring the application of control systems to measure and manage risks, and raise them transparently with the stakeholders and parties related to the company.
5. Developing a plan to include sustainability factors in the company's overall strategy.
6. A member of the Board of Directors shall be a representative of all the shareholders, and shall work to achieve the public interest of the Company and its shareholders.

GOVERNANCE REPORT

Policies and Procedures Regulating the Executive Management's work:

The Board of Directors adopted the guide, policies and procedures regulating the work of all the executive departments and groups within the Company. Every guide sets forth all the tasks that each executive department performs in detail according to the strategic goals approved by the Board and the internal laws of the Company. These policies also state all the obligations of the Executive Management and CEO in light of the responsibilities assigned to them by the Company's Board of Directors.

The Executive Management aims to achieve balance in the relations between the Company and its shareholders, employees, customers and other stakeholders, and to ensure that it works within the Company's objectives by using its resources appropriately to meet its objectives in line with the Company's policy and strategy.

Major achievements of the Board of Directors during the year:

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

1. Approving the Annual Reports on Corporate Governance - Remunerations - Audit Committee - Social Responsibility of Kuwait Real Estate Company (AQARAT).
2. Periodically reviewing the financial results of the Company and comparing these results with the financial statements issued for different periods.
3. Approving the periodic and annual financial statements of Kuwait Real Estate Company.
4. Following up on all the legal issues of the Company.
5. Approving the policies and procedures complementing the Governance Rules and regulatory compliance.
6. Approving the re-appointment of the external auditor Messrs. Grant Thornton Al-Qatami & Al-Aiban & Partners.
7. Following up on the Company's activities with the Executive Management and holding periodic meetings.
8. Reviewing the reports and recommendations issued by the Nominations and Remunerations Committee, and supervising the works of the committee on the annual evaluation process for members of the Board of Directors and Executive Management.
9. The ability to understand and analyze the nature and size of the risks facing the company's activities, as well as knowledge of the sustainability risks represented by environmental issues.
10. Following up on the results of the activities of the committees derived from the Board through reviewing and discussing the periodic reports issued by such committees.
11. Holding regular meetings with those responsible for the internal audit departments, following up the results of their work, and discussing the remarks of regulatory entities.
12. Attending training workshops.

GOVERNANCE REPORT

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

Board Committees:

The Board of Directors of Kuwait Real Estate Company has formed the necessary number of specialized committees in accordance with the corporate governance rules issued by the Capital Markets Authority. The Board of Directors performs its duties supported by three specialized committees, the following is a statement of those committees:

	Date of Formation	Members of the Committee		Number of meetings during 2022
Risks Management Committee	18 May 2021 for a period of three years	Ahmad Faisal Al Qatami	Chairman – Independent	**5**
		Marzouq Jasim Al-Bahar	Non-executive member	
		Mohammad Issam Al-Bahar	Non-executive member	
		Amal Mohammad Al Ashab	Secretary	

Tasks and Accomplishments of the Committee

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

GOVERNANCE REPORT

<table>
<tr><th rowspan="5">Nominations and Remunerations Committee</th><th>Date of Formation</th><th colspan="2">Members of the Committee</th><th>Number of meetings during 2022</th></tr>
<tr><td rowspan="4">18 May 2021 and for a period of three years</td><td>Ibrahim Saleh Al-Therban</td><td>Chairman – Non-executive</td><td rowspan="4">1</td></tr>
<tr><td>Meshari Abdullah Al Dakhil</td><td>Independent member</td></tr>
<tr><td>Mohammad Issam Al-Bahar</td><td>Non-executive member</td></tr>
<tr><td>Amal Mohammad Al Ashab</td><td>Secretary</td></tr>
<tr><th colspan="5">Tasks and accomplishments of the Nominations and Remunerations Committee</th></tr>
<tr><td colspan="5">1. Supervising the annual evaluation of the members of the Board of Directors, Executive Management and employees of the Company.
2. Adopting the criteria for distributing annual bonuses to the Company’s employees, and recommending them to the Board of Directors.
3. Approving the results of the annual evaluation of the members of the Board of Directors and the committees deriving therefrom, and the performance of the CEO and the Secretary.
4. Establishing and developing the Board of Directors’ allowances and remunerations policy in accordance with the applicable laws, and submitting recommendations to the Board regarding the proposed remunerations subject to the approval of the Ordinary Assembly.
5. Determining the different segments of remunerations to be granted to the employees, such as the fixed remunerations, performance related remunerations, remunerations as shares and end of service remunerations.
6. Supervising the establishment of the policy of granting remunerations, promotions, benefits, increases, incentives and salaries to the executive management and employees.
7. Verifying that the remunerations are granted in accordance with the Company’s policy, periodically reviewing these policies and evaluating their effectiveness in achieving the desired objectives of attracting the human cadres and maintaining the competent staff.
8. Developing job descriptions for executive, non-executive and independent board members.
9. Recommending the nomination or re-nomination of independent members by the General Assembly, and ensuring independence of the independent board member is not denied.
10. Ensuring the nomination of the most efficient, experienced, capable and skilled person to exercise the tasks assigned to any vacancy in accordance with the best standards.</td></tr>
</table>

GOVERNANCE REPORT

<table>
<tr><th rowspan="5">Audit Committee</th><th>Date of Formation</th><th colspan="2">Members of the Committee</th><th>Number of meetings during 2022</th></tr>
<tr><td rowspan="4">18 May 2021 and for a period of three years</td><td>Khalid Ali Al Attal</td><td>Chairman – Non-executive</td><td rowspan="4">4</td></tr>
<tr><td>Ahmad Faisal Al Qatami</td><td>Independent member</td></tr>
<tr><td>Marzouq Jasem Al-Bahar</td><td>Non-executive member</td></tr>
<tr><td>Amal Mohammad Al Ashab</td><td>Secretary</td></tr>
<tr><th colspan="5">Tasks and accomplishments of the Audit Committee</th></tr>
</table>

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

GOVERNANCE REPORT

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

Kuwait Real Estate Company has provided mechanisms and tools that enable the members of the Board of Directors to obtain the required information and data in a timely manner, by developing the information technology environment within the Company, creating direct communication channels between the secretariat of the Board of Directors and members of the Board, and providing reports and discussion topics related to the meetings in sufficient time to discuss them and take decisions on them.

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

The Nominations and Remunerations Committee was reformed on the 18 May 2021, consisting of three members, including an independent member, Chairman of the Committee, and a non-executive member for a period of three years. The committee also meets regularly, at least once a year, as well as when needed.

- **A report on the remunerations granted to members of the Board of Directors, executive management and managers**

Kuwait Real Estate Company (AQARAT) has established a clear policy regarding granting remunerations to the Chairman and members of the Board of Directors, executive management, and managers, with an annual review of the required needs, and prepared a detailed report on the amounts, benefits or privileges granted to them. The Nominations and Remunerations Committee of the Company operates within the framework of that policy, recommending the remunerations to members of the Board of Directors and the Executive Management based on the procedures determined by the remuneration policy, the performance standards and the Company's success in achieving the goals and the size of profits.

GOVERNANCE REPORT

- **Statement of Remunerations:**

Remunerations and benefits for members of the Board of Directors							
The total number of member	Remunerations and benefits through the parent company			Remunerations and benefits through affiliates			
	Fixed remunerations and benefits	Variable remunerations and benefits		Fixed remunerations and benefits		Variable remunerations and benefits	
	(KD)	(KD)		(KD)		(KD)	
	Health insurance	Annual remunerations	Remunerations for commissions	Health insurance	Monthly salaries (total during the year)	Annual remunerations	Remunerations for commissions
8	**0**	**40,000**	**0**	**0**	**0**	**0**	**0**

Total remunerations and benefits granted to five senior executives who received the highest remunerations, in addition to the Chief Executive Officer and the Chief Financial Officer or whoever replaces them if they are not among them.														
The total number of executive positions	Remunerations and benefits through the parent company							Remunerations and benefits through affiliates						
	Fixed remunerations and benefits (Kuwaiti Dinars)						Variable remunerations and benefits (Kuwaiti Dinars)	Fixed remunerations and benefits (Kuwaiti Dinars)						Variable remunerations and benefits (Kuwaiti Dinars)
	Monthly salaries (total during the year)	Health insurance	Annual tickets	Housing allowance	Transportation allowance	Allowance for children's education	Annual remuneration	Monthly salaries (total during the year)	Health insurance	Annual tickets	Housing allowance	Transportation allowance	Allowance for children's education	Annual remuneration
7	473,620	9,320	20,916	0	0	0	94,770	144,000	415	3,570				

During the year, the Company did not record any deviation from the policy adopted in granting remunerations and benefits approved by the Board of Directors.

GOVERNANCE REPORT

- **Declaration of the Authenticity and Integrity of Financial Reports:**

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

Declaration of the CEO
And AVP Finance
To the Integrity and fairness of financial statements

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

- The consolidated statement of the financial position as at 31 December 2022
- The consolidated statement of income
- The consolidated statement of changes in equity
- The consolidated statement of cash flows

For the year then ended, and the remarks to the consolidated financial statements, including the summary of the significant accounting policies, fairly reflect, in all material respects, the consolidated financial position as at 31 December 2022 and the Company's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards for the preparation of financial reports.

Talal Jassim Al-Bahar
Vice Chairman and CEO

Maher Sameer Khalaf
AVP - Finance

GOVERNANCE REPORT

Declaration (Integrity and Fairness of the Financial Statements)

We, Chairman of and Members of the Board of Directors of Kuwait Real Estate Company (AQARAT), declare the accuracy and integrity of the financial statements provided to the external auditor and that the Company's financial statements have been presented properly and fairly and in accordance with international accounting standards applicable in the State of Kuwait and approved by the Authority. We also declare that these statements reflect the financial position of the Company as of 31 December 2022, based on information and reports received from the Executive Management and the Auditor and as a result of the due diligence performed to verify the integrity and accuracy of these reports.

Name of the Member	Position	Signature
Ibrahim Saleh Al-Therban	Chairman of the Board	
Talal Jassim Al-Bahar	Vice Chairman of the Board and Chief Executive Officer	
Marzouq Jassim Al-Bahar	Member of the Board of Directors	
Mohammad Issam Al-Bahar	Member of the Board of Directors	
Hamed Mohammad Al Aiban	Member of the Board of Directors	
Ahmad Faisal Al Qatami	Member of the Board of Directors	
Meshari Abdullah Al Dakhil	Member of the Board of Directors	
Khaled Ali Al Attal	Member of the Board of Directors	

GOVERNANCE REPORT

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

The Audit Committee was reformed on the 18 May 2021. It consists of three members, including one independent member. The Chairman of the Board of Directors or an executive member may not be members in this committee. The Committee is fully independent and has human cadres with specialized expertise in the accounting and financial fields. The committee holds meetings regularly at least four times a year quarterly. It records its meetings minutes and holds periodic meetings with external auditors, with the internal auditor at least four times a year as well as when necessary. Based on the powers specified in the Committee's Charter of Work and in accordance with the powers and responsibilities stipulated in the Corporate Governance Rules, the Audit Committee may supervise, review and follow up on all the work of the company's auditors and internal audit activities, as well as any other tasks that ensure the establishment of a culture of compliance and the fairness and transparency of financial reports, in addition to ensuring the effectiveness of the adopted internal control systems, as the Committee is obligated to periodically submit any observations or recommendations related to its work to the Board of Directors. **During the past year there was no conflict between the recommendations of the Audit Committee and the decisions issued by the Board of Directors of the company.**

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

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

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

- **About implementing the requirements of forming the risk management committee**

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

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

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

The Risk Management Committee was reformed on 18 May 2021. It consists of three members. The Chairman of the Committee is an independent member in addition to two non-executive members. The Chairman of the Board is not a member of the Committee. The Committee meets periodically at least four times a year and when necessary, and records the minutes of its meetings.

GOVERNANCE REPORT

- **Internal Control Systems**

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

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

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

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

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

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

- **Polices and mechanisms limiting the conflict of interests**

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

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

GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

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

GOVERNANCE REPORT

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

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

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

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

- **The regulations and policies which guarantees the protection and realization of the stakeholder's rights.**

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

- **The method of encouraging stakeholders to participating in following up with the Company's various activities**

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

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

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

GOVERNANCE REPORT

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

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

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

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

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

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

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

    1. Kuwait Real Estate Company (AQARAT) called on the owners of the shops affected by the huge fire that affected the Mubarakiya old market, to display their goods and conduct their business through Souq Al Kuwait and Al Souk Al Kabeer. The company has provided shops to the owners of the affected shops in both Souq Al Kuwait and Al Souk Al Kabeer at nominal prices for a year, with a grace period of up to six months free of charge. This is not our first initiative in the field of community service. The company has launched and executed many initiatives that have contributed to mitigating the repercussions of the "Covid-19" pandemic, which negatively affected the shop and restaurant sector in particular and the national economy in general.

    2. Kuwait Real Estate Company (AQARAT) has donated in the field of community development to INJAZ Kuwait, which is a non-governmental and non-profit association that aims at the development of the youth to work successfully through business management courses in the areas of entrepreneurship, business readiness and financial knowledge.

    3. In cooperation with Kuwait Cardiac Association, the assembly sent a mobile unit located in the Kuwait Market Building, which performed free examination to assess the level of sugar and cholesterol in blood and measure weight, height and blood pressure. In addition, it provided advice and guidance to all participants by the mobile unit doctor, and distributed brochures and pamphlets on awareness of cardiac disease.

ANNUAL AUDIT COMMITTEE REPORT

Committee Head Message

Esteemed Shareholders,

Greetings,

On behalf of myself and the committee members, I am pleased to present to you the report of the Audit Committee for the financial year ended on 31/12/2022 including the main duties and accomplishments of the Committee during the period.

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

Yours Sincerely,

Khaled Ali Al Attal
Chairman
Audit Committee

ANNUAL AUDIT COMMITTEE REPORT

Introduction

In compliance with the instructions of the Capital Markets Authority, an audit committee (the committee) was formed emanating from the board of directors (the board) of Kuwait Real Estate Company (the company), and the committee's working charter was approved by the board of directors, a charter that explains the process and criteria for selecting committee members, the committee's term, the tasks, responsibilities and powers of the Committee, and the guidelines of its work. The committee enjoys full independence from the company's executive management.

As per the provisions of Module Fifteen) Corporate Governance (of the Executive Regulations issued by the Capital Markets Authority of the State of Kuwait) Article 9 – 9 # clause 4 # which provides that the items on the agenda of the general assembly should include the reading of the audit committee's report ,(this report has been prepared for the purpose of reading its contents during the company's general assembly intended to be held during the second quarter of.2023

The company established the internal audit function to be absolutely technically autonomous through the direct subordination to the Audit Committee.

All committee members have the education qualifications and/or the practical experience in the fields of accounting and finance.

The general secretariat of the committee records all minutes of the committee's meetings ,where the place ,date and time of the meeting's start and end will have been indicated .The minutes of the meetings have been numbered consecutively for the year in which they were held ,and they have been classified and preserved in a way that is easy to refer to .In the interest of the Committee to ensure the provision of all required information and data in an accurate and timely manner to all members of the Committee and/or the Board of Directors ,all updated information and data that any member may need are available at the general secretary of the committee.

The committee's opinion regards the systems of internal control applied within the company

The committee considers that the company has appropriate and satisfactory internal control and control systems that cover all the company's activities ,and works to preserve the company's financial integrity ,the accuracy of its data ,and the efficiency of its operations in various aspects .The organizational structure of the company takes into account:

1. Proper identification of powers and responsibilities.
2. Double examination and control, and double signature of financial and accounting operations, in a manner that does not conflict with the schedule of powers approved by the Board of Directors.
3. The principle of segregation of incompatible duties in all the company's operations that are carried out from the manual systems and the automated systems used. The main objectives of this principle are:
    a) Reducing the chances of annulment of any operation being performed.
    b) Reducing the ability of one person to control all stages of a process.
    c) Reducing conflicts of interest.
    d) Reduce fraud risk.

The committee finds that the company relies on a set of advanced information systems; systems that contribute effectively to internal controls and provides accurate and transparent information. The company has a matrix of powers that defines the limits of access and dealing with information systems. In addition, limits to the powers have been set by the Board of Directors and the Executive Management to reflect the decision-making powers, and the authorized signatories for the company have been identified. The company's management ensures that the powers granted to employees correspond to their responsibilities with an acceptable level of delegation and separation of duties, and the powers and responsibilities of employees are subject to review according to the requirements of the work environment and any changes in the organizational structure of the company.

ANNUAL AUDIT COMMITTEE REPORT

Internal control procedures include operational, administrative and accounting control, and they are applied on an ongoing basis. The activities and performance of the company are discussed through periodic meetings of the senior management. All concerned in the company's departments are informed of all decisions, and all documents related to the internal control system are kept and classified for use in training employees. Examination and testing procedures aimed at ensuring the efficiency and effectiveness of the system. The departments keep their files and records in a safe place and grant access to them only to the authorized and competent persons in accordance with the administration's instructions.

Committee Achievements

The committee has worked towards consolidating the culture of commitment within the company through its efforts to ensure the veracity and integrity of the company's financial reports, as well as ensuring the adequacy and effectiveness of the internal control systems applied in the company.

The committee's most significant achievements for 2022 include:

1) Preparation of the Audit committee Report in anticipation to be read at the general assembly.
2) Preparation of the Annual Audit Committee Report regards the adequacy of the internal control systems applied in the company, which includes the opinion of the committee in this regard. The report was presented to the Board of Directors.
3) Reviewing the interim and annual financial information and making a recommendation to the Board of Directors for approval.
4) Meeting with the independent auditor, discussing reports and financial statements, and making sure that there are no interferences or obstacles encountered during the audit of the annual consolidated financial statements of the company and its subsidiaries by the executive management or the board of directors.
5) Monitoring the performance of the independent auditor, assessing his independence, and making a recommendation to the Board of Directors for reappointment.
6) Reviewing and discussing the report of the evaluation and review of the internal control systems (ICR) applied in the company, which was issued by an independent auditing office, and following the processing of observations and implementation of the recommendations contained in the previous reports.
7) Follow-up of the annual internal audit activities.
8) Approval of the annual internal audit plan.
9) Reviewing and discussing the internal audit reports (including the report on the evaluation of the internal control systems applied in the company) and following up on the processing of observations and implementation of the recommendations contained in this report.

The Committee has informed the Board of Directors of its activities and of the decisions it has taken in a transparent manner. The Board monitors the work of the members of the Committee periodically to verify that it is carrying out the tasks entrusted to it, and the Committee bears responsibility for its work before the Board of Directors. The company's executive management has provided all the information and data that the committee needs in a complete, accurate and timely manner to all members of the committee, which enabled it to carry out and carry out its duties and tasks efficiently and effectively.

In compliance with the highest standards of transparency, the company has set up a mechanism that allows, in the event of a conflict between the recommendations of the Audit Committee and the decisions of the Board, especially when the Board refuses to follow the recommendations of the Committee with regard to external auditors and/or the internal auditor, where the Board commits, in the absence of any conflict, to Its Corporate Governance Report to include a statement clearly detailing these recommendations and the reason(s) behind the Board's decision not to comply with them.

During the year 2022, there were no conflicts between the recommendations of the Audit Committee and the decisions made by the Board of Directors.

RELATED PARTY TRANSACTIONS AND BALANCES

Honorable shareholders,
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 for 2022 are as follows:

The Consolidated Financial Position	KD
Due from related parties	12,709,129
Due to related parties	7,937,827
Due on sale of investment properties	30,043
Borrowings	1,853,631
Purchase of investment in associate	559,711
Purchase of investment properties	33,919,943
The Consolidated Statement Of Profit Or Loss	**KD**
Real estate rental income	2,620,087
(Loss) / gain on sale of investment properties	(27,390)
Real estate operating expenses	807,865
Other income	466,397
Finance costs	120,486
General and administrative expenses	390,768
Provision charge for doubtful debts (see below)	140,425

It is expected that a transactions with related parties will occur in 2023 for the benefit of the company.

MARKET OVERVIEW

Pearl Marzouq
Kuwait


Arabella Hotel
Kuwait

MARKET OVERVIEW

DUBAI

We are pleased to present the annual overview of our assets in the Dubai real estate and hospitality market. As we reflect on the past year, it is clear that the market has remained strong and resilient, despite the ongoing challenges presented by the global pandemic. The government's proactive response to the pandemic, coupled with its ongoing investments in infrastructure and development, have helped to position Dubai as a safe and attractive destination for visitors from around the world.

In the hospitality sector, we have seen strong demand for luxury accommodations, with a particular emphasis on properties that offer exceptional service and experiences. This has created an opportunity for us to leverage our expertise and assets in the market to drive growth and profitability for our investors.

In the real estate sector, we have seen continued demand for residential properties, fueled in part by the government's initiatives to support the sector and promote transparency in the market. As we look ahead, we remain optimistic

Th8 Hotel
Dubai - UAE

MARKET OVERVIEW

about the future of the Dubai market and are committed to leveraging our assets and expertise to drive growth and value for our investors.

With regard to **Th8-Palm Jumeirah**, the hotel has continued to perform well, with strong occupancy rates and consistent revenue growth. We attribute this success to the prime location of the hotel on Palm Jumeirah, the high level of service provided by our dedicated staff, and the luxurious amenities offered to our guests.

In addition to our hotel operations, we recognized an opportunity in the Dubai real estate market to sell up to 50% of the hotel units to individual investors. One of the unique features of the investment opportunity was that individual owners could choose whether to keep their unit in the hotel inventory, generating rental income from the hotel, or keep it for personal use, enjoying the luxurious amenities and prime location of the hotel on Palm Jumeirah.

Investors have shown significant interest in the opportunity, and while still early in the process, we expect to be able to generate additional revenue and increase the investment's profitability through this initiative.

MARKET OVERVIEW

By selling hotel units to individual investors, we have been able to diversify our revenue streams and reduce our exposure to market fluctuations and risk associated with traditional hotel operations. This has allowed us to maximize the profitability of the hotel and take advantage of the strong demand for real estate investments in Dubai.

The ten residential units owned by the company in **Fairmont Heritage Place**, located within Fairmont- The Palm, have also continued to perform strongly over the past year, demonstrating the resilience of the Dubai hospitality market. The assets have been able to maintain high occupancy rates and generate attractive returns for our investors.

Outside of the hospitality sector, **Domus Indigo Staff Housing** had a successful first full year of operations. The facility opened in the final quarter of 2021, and has since become an integral part of our company's commitment to providing exceptional employee housing solutions in the region. The facility's first year of operations has exceeded our expectations and has resulted in strong financial performance.

We are proud to report that the facility's first year of operations has been a resounding success, with high levels of staff satisfaction and a 100% occupancy in the two buildings. The high occupancy rates are a testament to the quality of the accommodation provided by Domus Indigo, as well as the convenience of its location for our tenants and hospitality partners. Our commitment to providing exceptional service and amenities has been reflected in the positive feedback we have received from our tenants, who appreciate the modern and functional design of the facility, as well as the range of services and activities available to them.

Moreover, the operational costs for the facility have been well-controlled and within our budgetary expectations. This has been possible due to the effective management and operational efficiency of the facility, as well as our investment in modern and energy-efficient systems and equipment.

Looking ahead, we are confident that Domus Indigo will continue to be a strong contributor to our financial success, as well as a valuable asset for our employees. We will continue to monitor its financial performance closely and make the necessary investments to maintain its operational efficiency and quality. We believe that our commitment to employee housing is not only the right thing to do but also a key driver of our financial success, and we look forward to building upon the success of Domus Indigo with further developments in the years to come.

We are committed to continuing to explore new opportunities in the market to grow and optimize our business, and we look forward to providing further updates in the future.

UNITED STATES

As a company, we have strategically invested in various properties across the United States, with a focus on areas that have shown significant potential for growth and return on investment.

It is worth noting that the performance of our investments in different geographic locations has varied. Some regions have proven to be particularly lucrative, while others have presented more challenges. In this section, we will provide an overview of our assets in the US, highlighting our successes and discussing the areas in which we have encountered difficulties.

Some properties such as The **Flats Atlantic Station and Yotel Miami**, have outperformed expectations, and we are proud to have them as part of our portfolio. However, we also recognize that not all of our investments have been equally successful. In particular, our assets in San Francisco have failed to perform as well as we had hoped.

Yotel New York, like many hotels, was severely impacted by the pandemic over the past years. However, the hotel has been making strides in recovering in 2022. While it may not have reached pre-pandemic levels with regard to net income, the situation is improving. The hotel has been able to benefit from the gradual reopening of New York City, which has led to increased tourism and a higher demand for hotel accommodations. Additionally, the hotel has implemented cost-saving measures and adjusted its business strategies to adapt to the current market conditions. By continuing to focus on innovation and providing exceptional customer service, Yotel New York is well-positioned to continue its recovery and achieve long-term success.

MARKET OVERVIEW

Elsewhere in the United States, Miami's real estate and hospitality markets have experienced significant success over the past year, in contrast to the challenges faced in San Francisco. The city's low tax environment, favorable weather, thriving arts and culture scene, and effective handling of the Covid pandemic have all contributed to its popularity among residents and tourists, driving strong demand for real estate and hospitality services.

Yotel Miami, the latest addition to our portfolio, had a successful first year of operations. With the hotel opening in June, Aqarat and our partners Aria Development Group, are proud to have partnered with Yotel to bring their innovative brand and unique guest experience to Miami's downtown area.

We are also excited to report that the 231 residences, located within the same building as the hotel, were handed over the second and third quarter of the year. We are delighted to see the positive reviews from buyers who have praised the high standards of design and functionality of the apartments.

Looking ahead, we remain committed to providing a unique and innovative guest experience at Yotel Miami, while also focusing on the long-term growth and profitability of our investment. We believe that the combination of a successful hotel and residential component will continue to drive value for our company and investors. We are excited about the future of Yotel Miami and look forward to building upon the success of our first year of operations.

Elsewhere in Miami, construction of **501 First Street** is currently underway, and the development is expected to be completed by the end of 2025. Like Yotel Miami, the project is a joint venture between Aqarat and its development partners at Aria Development group. Aqarat is excited about the progress being made on this project and looks forward to delivering a premium living experience to residents as soon as possible. With construction underway and sales already exceeding 90%, Aqarat's investment in this development is on track to generate strong returns for the company and its investors.

In **San Francisco**, Aqarat has faced challenges in the market over the past year, however the company is actively exploring ways to overcome these obstacles and achieve the best possible outcomes. The reduction in demand for office space due to work-from-home policies and the decrease in convention business, has continued to negatively impact the city both in regards to the office and hospitality sectors. While the difficulties in the San Francisco market have presented significant challenges, Aqarat remains committed to seeking out strategies to achieve success.

501 First Residences
Miami - USA

AGENDA OF ORDINARY GENERAL ASSEMBLY FOR THE FISCAL YEAR ENDING 31 DECEMBER 2022

1. Discuss and approve the Board of Director's Report on the financial year ended 31 December 2022.
2. Discuss and approve the external Auditors' Report on the financial year ended 31 December 2022.
3. Discuss and approve the Consolidated Financial Statements for the financial year ended 31 December 2023.
4. Read and recite the Corporate Governance Report and Audit Committee report on the financial year ended 31 December 2022.
5. Presentation of any penalties (financial and non-financial) imposed by the regularities for the financial year ended 31 December 2022 (if any).
6. Read and recite transactions that occurred with the related parties for the year ended 31 December 2022, and endorse and authorize the Board of Directors to complete any related parties transactions that will occur for the year ending 31 December 2023.
7. Discuss the Board of Directors proposal to distribute bonus shares of 3% to the company's shareholders of (3) three treasury shares for every (100) one hundred shares of the company and the proposal to distribute 3% cash dividends (3) fils per share for the financial year ended 31 December 2022 at the end of the maturity day which is 15 working days after the date of the ordinary general assembly. The distribution will begin to those entitled after five working days from the end of the due date, without increasing the paid-up capital or the number of issued shares, further authorizing the Board of Directors to dispose of shares' fractions resulting from the distribution.
8. To discuss and approve the board of directors recommendation to pay total remuneration of Kuwaiti Dinars 40,000 for the members of the board of directors for the financial year ended as of 31 December 2022
9. Discuss the deduction of 10% (ten percent) from the profit this year to the company's statuary reserve with a value of 760,490 KD (seven hundred sixty thousand four hundred ninety Kuwaiti Dinars).
10. Discuss the deduction of 10% (ten percent) from the profit this year to the company's voluntary reserve with a value of 760,490 KD (seven hundred sixty thousand four hundred ninety Kuwaiti Dinars).
11. To authorize the Board of Directors to deal in treasury shares not exceeding 10% of the company's shares as per the article Law No. (7) of 2010 and their amendments and the Capital Markets Authority (CMA) approval.
12. Discuss the board member's discharge from and hold them harmless against any liabilities for their financial, legal, and administrative actions for the financial year ended 31 December 2022.
13. To appoint or reappoint the external auditors from the list of auditors approved by Capital Markets Authority (CMA), considering the mandatory rotation period for the financial year ending 31 December 2023 and authorizing the Board of Directors to determine their fees.

FINANCIAL STATEMENTS

Balqis Residence
Dubai


Yotel Hotel
Miami

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

Souq Al Kabeer Building
Block A, 9th Floor
P.O.Box 2986, Safat 13030
State of Kuwait
T +965-224-3900/9
F +965-2243-8451
www.grantthornton.com.kw

Independent auditor's report

To the shareholders of
Kuwait Real Estate Company – KPSC
Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Real Estate Company - KPSC (the "Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Valuation of investment properties

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

Investment properties are valued using mark to market approach which is based on the latest sale prices of properties within similar areas for certain investment properties, and income capitalization approach which is based on estimates and assumptions such as rental values, occupancy rates, discount rates, financial stability of tenants, market knowledge and historical transactions for certain other properties. Also, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter. The Group's disclosures about its investment properties are included in Notes 19 and 33.3 to the consolidated financial statements.

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

Key Audit Matters (continued)

Valuation of investment properties (continued)

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

Valuation of financial assets at FVTPL and FVTOCI

The Group's financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) include significant unquoted investments. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models. Therefore, there is significant measurement uncertainty involved in valuations. As a result, the valuations of these instruments were significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its financial assets at FVTPL and FVTOCI are included in Notes 12, 17 and 33.2 to the consolidated financial statements.

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

Other information included in the Group's Annual Report

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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.

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

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its Executive Regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business or financial position of the Parent Company.

We further report, to the best of our knowledge and belief, no violations of the provisions of Law No. 7 of 2010 regarding Capital Markets Authority and its relevant regulations have occurred during the year ended 31 December 2022 that might have had a material effect on the business or financial position of the Parent Company.

Hend Abdullah Al Surayea
(Licence No. 141-A)
Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
14 March 2023

Consolidated statement of profit or loss

	Notes	**Year ended 31 Dec 2022 KD**	Year ended 31 Dec 2021 KD
Income			
Real estate rental income		**27,620,930**	21,430,882
Real estate operating expenses		**(7,642,906)**	(3,399,596)
Net rental income		**19,978,024**	18,031,286
Change in fair value of investment properties	19	**(5,594,596)**	(3,663,287)
(Loss)/gain on sale of investment properties	19.3	**(19,062)**	1,733,975
Change in fair value of properties under development	18	**1,296,849**	-
Loss on sale of trading properties	15	**(111,752)**	-
Change in fair value of financial assets at FVTPL		**(207,806)**	(370,261)
Gain/(loss) on sale of financial assets at FVTPL		**9,813**	(9,721)
Dividend income		**420,308**	247,623
Share of results of associates	16.2	**2,394,021**	289,063
Reversal of provision for tax of overseas subsidiary		**101,282**	504,718
Other income		**1,635,878**	562,928
		19,902,959	17,326,324
Expenses and other charges			
General and administrative expenses		**(2,862,727)**	(2,118,384)
Finance costs	8	**(8,232,452)**	(5,443,212)
Provision charge for doubtful debts	14 & 29	**(931,145)**	(2,314,139)
		(12,026,324)	(9,875,735)
Profit for the year before provisions for National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration		**7,876,635**	7,450,589
NLST		**(189,323)**	(162,981)
Zakat		**(107,705)**	(116,508)
Board of directors' remuneration		**(40,000)**	(40,000)
Profit for the year		**7,539,607**	7,131,100
Attributable to:			
Owners of the Parent Company		**7,267,875**	6,251,068
Non-controlling interests		**271,732**	880,032
Profit for the year		**7,539,607**	7,131,100
Basic and diluted earnings per share attributable to Owners of the Parent Company (Fils)	10	**7.92**	6.92

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Profit for the year	**7,539,607**	7,131,100
Other comprehensive income /(loss):		
Items that will not be reclassified subsequently to consolidated statement of profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	**(3,277,963)**	7,346,559
Items that will be reclassified subsequently to consolidated statement of profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	**322,824**	(1,194,248)
Exchange differences arising on translation of foreign operations	**479,369**	(298,771)
Share of other comprehensive income of associates	**69,421**	-
Total other comprehensive (loss)/income	**(2,406,349)**	5,853,540
Total comprehensive income for the year	**5,133,258**	12,984,640
Attributable to:		
Owners of the Parent Company	**4,861,526**	12,104,608
Non-controlling interests	**271,732**	880,032
Total comprehensive income for the year	**5,133,258**	12,984,640

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec 2022 KD	31 Dec 2021 KD
Assets			
Cash and cash equivalents	11	**8,606,784**	15,201,669
Financial assets at FVTPL	12	**6,817,273**	7,139,943
Advance payments for purchase of investments	13	**-**	17,230,565
Accounts receivable and other assets	14	**9,032,765**	7,086,217
Due from related parties	29	**12,709,129**	10,231,581
Trading properties	15	**8,151,197**	8,727,651
Investment in associates	16	**11,708,391**	7,977,142
Financial assets at FVTOCI	17	**35,628,130**	36,664,608
Capital work in progress		**131,015**	1,832,421
Properties under development	18	**4,879,134**	2,183,842
Investment properties	19	**262,055,667**	226,839,628
Property and equipment		**812,309**	44,182
Total assets		**360,531,794**	341,159,449
Liabilities and Equity			
Liabilities			
Due to banks	20	**3,093,100**	4,470,735
Accounts payable and other liabilities	21	**20,360,760**	18,759,498
Lease liabilities	22	**15,643,979**	26,906,229
Borrowings	23	**180,264,916**	146,760,672
Due to related parties	29	**7,937,827**	10,617,587
Provision for employees' end of service benefits		**1,192,624**	1,065,150
Total liabilities		**228,493,206**	208,579,871
Equity			
Share capital	24	**94,736,506**	94,736,506
Share premium	24	**3,425,191**	3,425,191
Treasury shares	25	**(3,214,552)**	(5,735,769)
Statutory and voluntary reserves	26	**24,485,387**	22,964,407
Other components of equity	27	**(19,147,172)**	(15,855,824)
Retained earnings		**27,389,043**	28,874,724
Equity attributable to owners of the Parent Company		**127,674,403**	128,409,235
Non-controlling interests		**4,364,185**	4,170,343
Total equity		**132,038,588**	132,579,578
Total liabilities and equity		**360,531,794**	341,159,449

Talal Jassem Al-Bahar
Vice Chairman & Chief Executive Officer

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to the owners of the Parent Company								
	Share capital KD	Share premium KD	Treasury shares KD	Statutory and voluntary reserve KD	Other components of equity KD	Retained earnings KD	Sub total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2022	**94,736,506**	**3,425,191**	**(5,735,769)**	**22,964,407**	**(15,855,824)**	**28,874,724**	**128,409,235**	**4,170,343**	**132,579,578**
Gain on acquisition of additional interest in a subsidiary (note 7.4)	-	-	-	-	-	61,366	61,366	(77,890)	(16,524)
Purchase of treasury shares	-	-	(15,473,709)	-	-	-	(15,473,709)	-	(15,473,709)
Sale of treasury shares	-	-	13,397,337	-	(860,656)	-	12,536,681	-	12,536,681
Bonus shares distributions (note 30)	-	-	4,597,589	-	(284,562)	(4,313,027)	-	-	-
Cash dividends distribution (note 30)	-	-	-	-	-	(2,720,696)	(2,720,696)	-	(2,720,696)
Transactions with the owners	-	-	2,521,217	-	(1,145,218)	(6,972,357)	(5,596,358)	(77,890)	(5,674,248)
Profit for the year	-	-	-	-	-	7,267,875	7,267,875	271,732	7,539,607
Other comprehensive loss for the year	-	-	-	-	(2,406,349)	-	(2,406,349)	-	(2,406,349)
Total comprehensive (loss) / income for the year	-	-	-	-	(2,406,349)	7,267,875	4,861,526	271,732	5,133,258
Loss on sale of financial assets at FVTOCI	-	-	-	-	291,683	(291,683)	-	-	-
Share of gain on sale of financial assets at FVTOCI of an associate	-	-	-	-	(31,464)	31,464	-	-	-
Transferred to reserves	-	-	-	1,520,980	-	(1,520,980)	-	-	-
Balance at 31 December 2022	**94,736,506**	**3,425,191**	**(3,214,552)**	**24,485,387**	**(19,147,172)**	**27,389,043**	**127,674,403**	**4,364,185**	**132,038,588**

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the Parent Company								
	Share capital KD	Share premium KD	Treasury shares KD	Statutory and voluntary reserve KD	Other components of equity KD	Retained earnings KD	Sub total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2021	94,736,506	3,425,191	(6,644,417)	21,650,295	(15,368,869)	20,157,247	117,955,953	3,301,717	121,257,670
Gain on acquiring additional interest in a subsidiary	-	-	-	-	-	8,286	8,286	(11,406)	(3,120)
Purchase of treasury shares	-	-	(15,870,582)	-	-	-	(15,870,582)	-	(15,870,582)
Sale of treasury shares	-	-	12,270,042	-	1,940,928	-	14,210,970	-	14,210,970
Bonus shares distributions (note 30)	-	-	4,509,188	-	1,391,024	(5,900,212)	-	-	-
Transactions with the owners	-	-	908,648	-	3,331,952	(5,891,926)	(1,651,326)	(11,406)	(1,662,732)
Profit for the year	-	-	-	-	-	6,251,068	6,251,068	880,032	7,131,100
Other comprehensive income for the year	-	-	-	-	5,853,540	-	5,853,540	-	5,853,540
Total comprehensive income for the year	-	-	-	-	5,853,540	6,251,068	12,104,608	880,032	12,984,640
Gain on sale of financial assets at FVTOCI	-	-	-	-	(9,672,447)	9,672,447	-	-	-
Transferred to reserves	-	-	-	1,314,112	-	(1,314,112)	-	-	-
Balance at 31 December 2021	94,736,506	3,425,191	(5,735,769)	22,964,407	(15,855,824)	28,874,724	128,409,235	4,170,343	132,579,578

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
OPERATING ACTIVITIES			
Profit for the year		**7,539,607**	7,131,100
Adjustments:			
Depreciation		**32,583**	45,666
Finance costs		**8,232,452**	5,443,212
Change in fair value of investment properties	19	**5,594,596**	3,663,287
Loss / (gain) on sale of investment properties	19.3	**19,062**	(1,733,975)
Change in fair value of properties under development		**(1,296,849)**	-
Loss on sale of trading properties	15	**111,752**	-
Share of results of associates	16.2	**(2,394,021)**	(289,063)
Change in fair value of financial assets at FVTPL		**207,806**	370,261
(Gain) / loss on sale of financial assets at FVTPL		**(9,813)**	9,721
Provision charge for doubtful debts	14 & 29	**931,145**	2,314,139
Provision reversal for tax claims of foreign subsidiary		**(101,282)**	(504,718)
Dividend income		**(420,308)**	(247,623)
Provision charge for employees' end of service benefits		**141,505**	121,446
		18,588,235	16,323,453
Changes in operating assets and liabilities:			
Accounts receivable and other assets		**(1,664,675)**	(1,950,637)
Due from related parties		**1,207,085**	(3,687,631)
Advance payments for purchase of investments		**-**	(1,191,284)
Accounts payable and other liabilities		**1,190,853**	6,457,058
Due to related parties		**(2,679,760)**	7,130,674
Employees' end of service benefits paid		**(14,031)**	(40,668)
Net cash from operating activities		**16,627,707**	23,040,965
INVESTING ACTIVITIES			
Purchase of property and equipment		**(800,710)**	-
Additions to capital work in progress		**1,701,406**	(1,017,852)
Additions to properties under development		**(1,366,928)**	(4,007,650)
Additions to investment properties	19	**(28,943,448)**	(4,734,445)
Purchase of financial assets at FVTPL		**(133,775)**	(1,025,307)
Proceeds from sale of financial assets at FVTPL		**258,452**	706
Purchase of financial assets at FVTOCI		**(15,570,528)**	(26,538,008)
Proceeds from sale of financial assets at FVTOCI		**13,991,792**	26,834,080
Dividend received from associates	16.2	**73,266**	36,000
Investments in associates	16.2	**(1,309,609)**	(120,000)
Proceed from sale of investment properties		**446,665**	5,602,035
Proceeds from sale of trading properties		**459,450**	-
Restricted bank balances	11	**41,369**	(30,071)
Increase in term deposits maturing after 3 months from original maturity date	11	**406,804**	-
Dividend income received		**420,308**	247,623
Net cash used in investing activities		**(30,325,486)**	(4,752,889)

The notes set out on pages 61 to 113 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Notes	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
FINANCING ACTIVITIES			
Net change in borrowings	23	**33,379,916**	1,820,113
Finance costs paid		**(7,243,976)**	(4,678,433)
Lease liabilities paid	22	**(11,968,210)**	(4,485,800)
Net movement in treasury shares		**(2,521,217)**	908,648
Dividends paid		**(2,592,803)**	-
Net cash from/(used in) financing activities		**9,053,710**	(6,435,472)
Net (decrease)/increase in cash and cash equivalents		**(4,644,069)**	11,852,604
Foreign currency adjustments		**(125,008)**	212,470
Cash and cash equivalents at the beginning of the year	11	**9,196,630**	(2,868,444)
Cash and cash equivalents at the end of the year	11	**4,427,553**	9,196,630
Material non-cash transactions:			
Decrease in advance payments to purchase investments		**(17,230,565)**	-
Increase in investment properties		**15,332,507**	-
Increase in due from related parties		**3,825,058**	-
Proceeds from sale of investment properties		**(2,999,593)**	-
Increase in accounts receivable and other assets		**1,072,593**	-

Notes to the consolidated financial statements

1 Incorporation and activities of the Parent Company

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

The Parent Company's shares are listed on Boursa Kuwait.

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 principal activities of the Parent Company are as follows:

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

Notes to the consolidated financial statements (continued)

1 Incorporation and activities of the Parent Company (continued)

The Parent Company has the right to perform the above-mentioned activities inside and outside the State of Kuwait directly or through an agent. The Parent Company may have an interest or participate in any aspect with the entities performing similar works or which might assist it in the achievement of its objectives in Kuwait or abroad. The Parent Company may also establish or share or purchase these entities or affiliate them therewith.

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

These consolidated financial statements for the year ended 31 December 2022 were authorised for issue by the Parent Company's board of directors on 14 March 2023. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, properties under development and investment properties that have been measured at fair value.

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

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

3 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

4 Changes in accounting policies

4.1 New and amended standards adopted by the Group

The following new amendments or standards were effective for the current year.

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 3 Amendment – Reference to the conceptual framework	1 January 2022
IAS 16 – Amendments – Proceeds before intended use	1 January 2022
IAS 37 – Amendments – Onerous contracts -Cost of fulfilling a contract	1 January 2022
Annual Improvements 2018-2020 Cycle	1 January 2022

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

IFRS 3 – Reference to the conceptual framework
The amendments add a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination

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

IAS 16 Amendments - Proceeds before intended use
The amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

The adoption of the amendment did not have a significant impact on the Group's consolidated financial statements.

IAS 37 Amendments – Onerous contracts- Cost of fulfilling a contract
The amendments specify which costs an entity includes when assessing whether a contract will be loss-making.

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments are only to be applied to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual period in which it first applies the amendments.

The adoption of the amendment did not have a significant impact on the Group's consolidated financial statements.

Annual Improvements 2018-2020 Cycle
Amendment to IAS 1 simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. Subsidiary that is a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. However, the amendment extends the exemption to cumulative translation differences to reduce costs for first-time adopters.

Amendment to IFRS 9 relates to the '10 per cent' Test for Derecognition of Financial Liabilities – In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IFRS 16 avoids the potential for confusion in applying IFRS 16 Leases because of how Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16. The IASB decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective

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

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

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IAS 1 Amendments- Disclosure of accounting policies	1 January 2023
IAS 1 Amendments- Classification of liabilities with debt covenants	1 January 2024
IAS 1 Amendments- Classification of current and non-current	1 January 2024
IAS 8 Amendments- Definition of accounting estimates	1 January 2023
IFRS 16 Amendments- Leases	1 January 2024

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

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

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

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

IAS 1 Amendments – Disclosure of accounting policies

The amendments to IAS 1 require entities to disclose material accounting policies instead of significant accounting policies. The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial.

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IAS 1 Amendments - Classification of liabilities with debt covenants

The amendments to IAS 1 clarify that classification of liabilities depends only on the covenants that an entity is required to comply with on or before the reporting date of the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

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

IAS 1 Amendments - Classification of current or non-current

The amendments to IAS 1 clarify the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. Stating management expectations around whether they will defer settlement or not does not impact the classification of the liability. It has added guidance about lending conditions and how these can impact classification and has included requirements for liabilities that can be settled using an entity's own instruments.

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

IAS 8 Amendments – Definition of accounting estimates

The amendments to IAS 8 inserted the definition of accounting estimates replacing the definition of a change in accounting estimates. Accounting estimates are now defined as monetary amounts in financial statements that are subject to measurement uncertainty.

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

IAS 16 Amendments – Leases

The amendments to IFRS 16 requires a seller-lessee to measure the right-of-use asset arising from a sale and leaseback transaction at the proportion of the previous carrying amount of the asset that relates to the right of use the seller-lessee retains. Accordingly, in a sale and leaseback transaction the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The initial measurement of the lease liability that arise from a sale and leaseback transaction is a consequence of how the seller-lessee measures the right-of-use asset and the gain or loss recognised at the date of the transaction. The new requirements do not prevent a seller-lessee from recognising in any gain or loss relating to the partial or full termination of a lease.

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies

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

5.1 Basis of consolidation

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

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

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

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent Company.

5.2 Business combinations

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

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

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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.2 Business combinations (continued)

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

5.3 Rental income

Rental income is recognised on accrual basis.

5.4 Dividend

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

5.5 Interest and similar income

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

5.6 Operating expenses

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

5.7 Borrowing costs

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

5.8 Taxation

5.8.1 National Labour Supporting tax

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

5.8.2 Zakat

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

5.8.3 Income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date.

Deferred income tax is calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is, however, neither provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.9 Leased assets

The Group as a lessee
For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Measurement and recognition of leases as a lessee
At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

Right-of-use asset
The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group accounts for its right-of-use assets as investment properties carried at fair value. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property. Any gain or loss resulting from either a change in the fair value is immediately recognised in the consolidated statement of profit or loss.
Notes to the consolidated financial statements (continued)

Lease liability
At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.9 Leased assets (continued)

The Group as a lessee (continued)

The Group as a lessor
The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group classifies its leases as either operating or finance leases. When the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and sub-lease as two separate contacts. The sub-lease is classified as finance lease or operating lease by reference to the right-of-use of asset arising from the head-lease.,

Rental income from operating leases is recognised on a straight-line basis over lease term. Initial direct cost incurred in arranging and negotiating a lease are added to the carrying amount of the lease assets and recognised on a straight-line basis over the lease term.

Amounts due under finance leases are recognised as receivables. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding for the finance lease.

5.10 Property and equipment

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

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

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

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

5.11 Investment properties

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.11 Investment properties (continued)

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

5.12 Investment properties under development

Investment properties under development represents property held for future use as investment property and is initially measured at cost. Subsequently, property under development are carried at fair value that is determined based on valuation performed by independent valuer at the end of each year using valuation methods consistent with the market conditions at the reporting date. Gains or losses from change in the fair value are recognised in the consolidated statement of profit or loss.

If the Group determines that the fair value of an investment property under development is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, the Group measures that investment property under development at cost until either its fair value become reliably determinable or development is completed (whichever is earlier).

Investment properties under developments are classified as non-current assets, unless otherwise specified.

5.13 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.

5.14 Capital work in progress

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

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

5.15 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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.15 Investment in associates (continued)

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.

5.16 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.

5.17 Financial instruments

5.17.1 Recognition, initial measurement and derecognition

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

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

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

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

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

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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.17 Financial instruments (continued)

5.17.2 Classification of financial assets

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

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

The classification is determined by both:

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

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

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other
- comprehensive income if certain criteria are met and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as

measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

5.17.3 Subsequent measurement of financial assets

- **Financial assets at amortised cost**

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

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

After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

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

- *Cash and cash equivalents*

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

- *Accounts receivable and other assets*

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

- *Due from related parties*

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.17 Financial instruments (continued)
5.17.3 Subsequent measurement of financial assets (continued)

- **Financial assets at FVTOCI**

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

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

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

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

Equity investments at FVTOCI

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

A financial asset is held for trading if:

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

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

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

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

- **Financial assets at FVTPL**

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

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.17 Financial instruments (continued)

5.17.4 Impairment of financial assets

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.17 Financial instruments (continued)

5.17.5 Classification and subsequent measurement of financial liabilities

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

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

- **Financial liabilities at amortised cost**

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

Borrowings

- *Bank loans and due to banks*

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

- *Murabaha payable and Tawaroq payable*

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

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

Accounts payable and other liabilities

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

Due to related parties

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

5.18 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.

5.19 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.

5.20 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.

5.21 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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.21 Fair value of financial instruments (continued)

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.

5.22 Equity, reserves and dividend payments

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

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

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the Parent Company's memorandum of incorporation and 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 Kuwait Dinar.
- Cumulative changes in fair value – comprises gains and losses relating to financial assets at fair value through other comprehensive income.
- Treasury shares reserve – comprises gains and losses resulting from sales of treasury shares.

Retained earnings includes all current and prior period retained profit and loss. All transactions with owners of the Parent Company are recorded separately within equity.

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

5.23 Provisions, contingent assets and contingent liabilities

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

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

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.24 Treasury shares

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

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

5.25 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.

5.26 Foreign currency translation

5.26.1 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.

5.26.2 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.

5.26.3 Foreign operations

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

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.27 End of service indemnity

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

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

6 Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

6.1 Significant management judgments

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

6.1.1 Business model assessment

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

6.1.2 Classification of real estate

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

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

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. And if such properties are under development they are classified under investment properties under development.

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

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.4 Fair values of assets and liabilities acquired

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

6.2 Estimates uncertainty

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

6.2.1 Impairment of associates

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

6.2.2 Impairment of financial assets

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

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

6.2.3 Useful lives of depreciable assets

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

6.2.4 Business combinations

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

6.2.5 Fair value of financial instruments

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

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.6 Revaluation of investment properties and investment properties under development

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 an arm's length transaction at the reporting date.

Where the Group determines that the fair value of an investment properties under development is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, the Group measures these investment properties under development at cost until either its fair value become reliably determinable or development is completed (whichever is earlier). When the fair value becomes reliably measurable, the fair value of such properties may vary from the actual cost.

6.2.7 Significant influence

Significant influence exists when the size of an entity's own voting rights relative to the size and dispersion of other vote holders, give the entity the practical ability unilaterally to direct the relevant activities of the company.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies

Name of subsidiary	Country of incorporation	Ownership Percentage 31 Dec. 2022	31 Dec. 2021	Principle activity
Directly owned subsidiaries:				
Habara Pearl Farm Company (7.1)	USA	**100%**	100%	Investment
Al-Aqdain Kuwaiti for Real Estate Development Co – KSCC (7.2)	Kuwait	**99.99%**	99.99%	Real estate
Financial Group of Kuwait Co. – KSC (Holding) (7.2)	Kuwait	**99.99%**	99.99%	Investment
KREC Meeker Debt Company Limited (7.1)	Cayman Islands	**100%**	100%	Investment
KREC Meeker Equity Company Limited (7.1)	Cayman Islands	**100%**	100%	Investment
IFA Hotels and Resorts Co. – S.A.L (Lebanon) (7.1 & 7.3)	Lebanon	**100%**	100%	Real estate
Al-Fereej International Real Estate Co. – WLL (7.2)	Kuwait	**99%**	99%	Real estate
Al Mottahida General Investment – LLC (7.2)	UAE	**99%**	99%	Real estate
Al Durrar General Investment – LLC (7.2)	UAE	**99%**	99%	Real estate
Delano Investments – FZE (7.9)	UAE	**-**	100%	Investment
Delano Managing Office – FZE (7.9)	UAE	**-**	100%	Service
International Resorts Co. - KPSC (7.4 & 7.10)	Kuwait	**70.27%**	69.63%	Real estate
Aqarat th8 Investment LTD (7.5)	Cayman Islands	**100%**	-	Real Estate
KREC Holding Company – KSC (Closed) (7.1 & 7.6)	Kuwait	**100%**	-	Real Estate
Now Health Fitness Company - WLL (7.1 & 7.7)	Kuwait	**100%**	-	Health Institutes Management

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

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

7.3 The Group's subsidiary IFA Hotels and Resorts Co. – S.A.L ("IFAHR Lebanon") is located in Lebanon which is currently witnessing significant economic and political turmoil. These events include significant controls on the Lebanese banking system including placing limits on cash withdrawals of foreign currency bank balances, limits on international bank transfers and reduction of contracted interest rates on foreign currency term deposits. These measures have significantly curtailed the ability of the Group to access the cash and other assets of IFAHR Lebanon. Moreover, the Government of Lebanon defaulted on its sovereign debt obligation. The rating agencies have downgraded the sovereign rating of Lebanon as well as some of the Lebanese banks. Furthermore, the economy of Lebanon in now considered witnessing hyperinflation.

Management has assessed the potential effects of these events on its ability to continue to exercise control over IFAHR Lebanon and concluded that it still has the power and ability to use that power to affect returns and that it is still exposed to variable returns of the subsidiary. Accordingly, it continues to consolidate the subsidiary.

Management has also assessed that the impact of these events on the carrying value of its investment in IFAHR Lebanon is not material to the Group. Furthermore, the Group's management believes that the carrying value of the Group's investment in Lebanon is recoverable and there are currently no indications that any material impairment loss is required at 31 December 2022.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

Summarised financial information of IFAHR Lebanon as at and for the year ended 31 December 2022 and 31 December 2021, before inter Group eliminations, is set out below:

	31 Dec 2022 KD	31 Dec 2021 KD
Cash and bank balances	**41,233**	82,602
Trading properties	**8,151,197**	8,727,651
Other assets	**1,031,611**	527,001
Total assets	**9,224,041**	9,337,254
Borrowings	**1,853,631**	1,833,660
Accounts payable and other liabilities	**2,288,567**	2,663,006
Total liabilities	**4,142,198**	4,496,666

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Loss	**(3,859)**	(12,230)
Profit /(loss) for the year	**(177,971)**	265,818

7.4 During the year, the Group acquired an additional 0.53% equity interest in International Resorts Company – KSCC for a total consideration of KD16,524. The Group recognised the difference of KD61,366 between the fair value of consideration paid and the share of net assets acquired directly in the shareholders' equity.

7.5 The Parent Company incorporated a new subsidiary "Aqarat th8 Investment LTD" registered in Cayman Island with 100% ownership.

7.6 During the year, the Parent Company incorporated a new subsidiary "KREC Holding Company – KSC (Closed)" registered in Kuwait with 100% ownership.

7.7 During the year, the Group incorporated a new subsidiary "Now Health Fitness Company - WLL" registered in Kuwait with 100% ownership.

7.8 The Group's ownership in fellow subsidiaries (International United Real Estate Group – SAL and Lebanese International Travel and Tourism Co. – SAL) which are consolidated in IFA Hotels and Resorts Co. – S.A.L (Lebanon) are pledged against borrowings obtained from a related party (note 23).

7.9 During the year, the Parent Company has disposed its ownership in Delano Investments – FZE and Delano Managing Office – FZE to one of its subsidiaries "Aqarat th8 Investment LTD".

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.10 Subsidiaries with material non-controlling interests

International Resorts Co. - KPSC is considered to have a material non-controlling interest (NCI) as follows:

Company name	**Proportion of ownership interests and voting rights held by the NCI**		**Profit allocated to NCI**		**Accumulated NCI**	
	31 Dec. 2022 %	31 Dec. 2021 %	**31 Dec. 2022 %**	31 Dec. 2021 %	**31 Dec. 2022 %**	31 Dec. 2021 %
International Resorts Co. - KPSC	**29.73%**	30.27%	**271,732**	880,032	**4,364,185**	4,170,343

Summarised financial information for International Resorts Co. - KPSC, before intragroup eliminations, is set out below:

	31 Dec 2022 KD	31 Dec 2021 KD
Non-current assets	**9,038,278**	14,377,718
Current assets	**21,959,826**	21,881,360
Total assets	**30,998,104**	36,259,078
Non-current liabilities	**6,490,437**	11,653,844
Current liabilities	**9,810,948**	10,822,777
Total liabilities	**16,301,385**	22,476,621
Equity attributable to the shareholders of the Parent Company	**10,332,534**	9,612,114
Equity attributable to the NCI	**4,364,185**	4,170,343
Total equity	**14,696,719**	13,782,457

	Year ended 31 Dec. 2022 KD	Year ended 31 Dec. 2021 KD
Revenue	**5,313,997**	5,393,652
Profit for the year attributable to the shareholders of the Parent Company	**641,986**	2,026,929
Profit for the year attributable to NCI	**271,732**	880,032
Profit for the year	**913,718**	2,906,961
Total comprehensive income for the year attributable to the shareholders of the Parent Company	**642,481**	2,112,138
Total comprehensive income for the year attributable to NCI	**271,941**	916,886
Total comprehensive income for the year	**914,422**	3,029,024

	Year ended 31 Dec. 2022 KD	Year ended 31 Dec. 2021 KD
Net cash flow (used in) / from operating activities	**11,076,622**	(4,618,184)
Net cash flow (used in) / from investing activities	**3,465,397**	(45,083)
Net cash flow used in financing activities	**(4,437,079)**	(3,794,840)
Net cash flows	**10,104,940**	(8,458,107)

Notes to the consolidated financial statements (continued)

8 Finance costs

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
On financial liabilities at amortised cost:		
Bank charges	**197,904**	226,592
Due to banks	**114,232**	54,033
Borrowings	**7,214,356**	4,207,761
Lease liabilities	**705,960**	954,826
	8,232,452	5,443,212

9 Net (loss)/gain on financial assets

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

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
At amortised cost:		
Interest income cash and cash equivalents	**49,529**	119,578
Gain on financial assets at amortised cost	**49,529**	119,578
Financial assets at fair value through profit or loss:		
Change in fair value of investments at FVTPL	**(207,806)**	(370,261)
Gain/(loss) on sale of investments at FVTPL	**9,813**	(9,721)
Loss on financial assets at fair value through profit or loss	**(197,993)**	(379,982)
Financial assets at fair value through other comprehensive income:		
Dividend income	**420,308**	247,623
Gain recognised in consolidated statement of profit or loss	**420,308**	247,623
Change in fair value of investments at FVTOCI	**(2,986,603)**	6,152,311
(Loss)/gain on sale of investments at FVTOCI	**(291,683)**	9,672,447
(Loss)/gain recognised in shareholders' equity	**(3,278,286)**	15,824,758
Total (loss)/gain on financial assets at fair value through other comprehensive income	**(2,857,978)**	16,072,381
Net (loss)/gain on financial assets	**(3,006,442)**	15,811,977

Notes to the consolidated financial statements (continued)

10 Basic and diluted earnings per share attributable to the owners of the Parent Company

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the owners of the Parent Company by weighted average number of shares outstanding during the year excluding treasury shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Profit for the year attributable to the owners of the Parent Company (KD)	**7,267,875**	6,251,068
Weighted average number of shares outstanding during the year (excluding treasury shares) (share)	**917,789,164**	903,319,582
Basic and diluted earnings per share (Fils)	**7.92**	6.92

11 Cash and cash equivalents

	31 Dec 2022 KD	31 Dec 2021 KD
Cash and bank balances	**7,414,147**	13,698,925
Cash in investment portfolios managed by others	**147,739**	51,042
Term deposits	**1,044,898**	1,451,702
Cash and cash equivalents	**8,606,784**	15,201,669
Less:		
Due to bank (note 20)	**(3,093,100)**	(4,470,735)
Restricted bank balances (11.1)	**(41,233)**	(82,602)
Term deposits with original maturity exceeding three months	**(1,044,898)**	(1,451,702)
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	**4,427,553**	9,196,630

11.1 Restricted bank balances represent balances deposited in a bank located in Lebanon denominated in US Dollar and restricted to cover any unpaid principal and interest relating to the term loans granted to the subsidiary in Lebanon (note 23).

12 Financial assets at fair value through profit or loss

	31 Dec 2022 KD	31 Dec 2021 KD
Local quoted securities	**103,096**	154,540
Local unquoted securities	**81,895**	195,500
Foreign quoted securities	**2,271**	1,988
Foreign unquoted securities	**6,612,173**	6,770,382
Managed funds	**17,838**	17,533
	6,817,273	7,139,943

The hierarchy for determining and disclosing the fair values of financial instruments is presented in Note 33.2.

Notes to the consolidated financial statements (continued)

13 Advance payments for purchase of investments

The Group had entered into an initial agreement in a prior year with a related party to acquire a property located in the UAE for a total purchase consideration of AED400 million and paid an advance of KD17,230,565. The purchase price was settled partly in kind by transferring certain properties and balance in cash. However, this agreement was amended subsequently and the purchase consideration was revised to AED395 million without any in-kind settlement. During the year, the remaining amount of the purchase consideration equivalent to KD33,919,943 was paid in full and the title deed of the property was transferred to the Group and has been classified as investment properties (Note 19).

14 Accounts receivable and other assets

	31 Dec 2022	31 Dec 2021
	KD	KD
Financial assets		
Accounts receivable	**7,628,617**	6,899,811
Refundable deposits	**529,068**	470,912
Due on sale of investment properties	**1,975,990**	903,397
Other assets	**2,396,194**	2,982,050
	12,529,869	11,256,170
Provision for doubtful debts	**(5,675,757)**	(4,885,037)
	6,854,112	6,371,133
Non-financial assets		
Advances to contractors and suppliers	**1,544,843**	328,969
Other assets	**633,810**	386,115
	2,178,653	715,084
	9,032,765	7,086,217

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

The movement in the provision for doubtful debts is as follows:

	31 Dec 2022	31 Dec 2021
	KD	KD
Balance at the beginning of the year	**4,885,037**	4,419,888
Charge for the year	**790,720**	465,149
Balance at the end of the year	**5,675,757**	4,885,037

Notes to the consolidated financial statements (continued)

15 Trading properties

	31 Dec 2022 KD	31 Dec 2021 KD
Balance at 1 January	**10,213,820**	10,213,820
Disposal during the year	**(606,141)**	-
Foreign currency translation adjustments	**(5,252)**	-
	9,602,427	10,213,820
Provision for impairment in value	**(1,451,230)**	(1,486,169)
Balance at 31 December	**8,151,197**	8,727,651

The Group's trading properties are located in Lebanon.

During the year, the Group sold certain trading properties for total sale consideration of KD459,450 resulting into a loss of KD111,752.

Trading properties with a carrying value of KD4,410,720 (2021: KD4,363,200) are pledged against borrowings (note 23).

16 Investment in associates

16.1 Details of the associates are set out below:

Name of associate	**Country of incorporation**	**Ownership Percentage 31 Dec. 2022 %**	31 Dec. 2021 %	**Principal activities**
Kuwait Building Materials Manufacturing – KSCC	Kuwait	**24.58**	24.58	Manufacturing
National Slaughter House Co. – KSCC	Kuwait	**44.5**	44.22	Consumer goods
EFS Facilities Services General Trading and Contracting Company – WLL	Kuwait	**50**	50	General trading and contracting
KREC Yotel Miami Debt Company Limited (16.1.1)	Cayman Islands	**100**	100	Investment
KREC Yotel Miami Equity Company Limited (16.1.1)	Cayman Islands	**100**	100	Investment
Zamzam for Religious Tourism Co. – KSCC	Kuwait	**32.5**	32.5	Religious tourism
KREC Debt Company Limited (16.1.2)	Cayman Islands	**43.03**	27.36	Investment
KREC Equity Company Limited (16.1.2)	Cayman Islands	**43.03**	27.36	Investment
Surda Restaurant Company – WLL	Kuwait	**40**	40	Catering

All the above associates are unquoted.

16.1.1 The Group waived part of its voting right in these investees to a third party. Accordingly, the Group does not control these investees. However, the Group classified these investees as associates because it is able to exercise significant influence over the operations of associates.

16.1.2 During the year, the Group acquired from a related party an additional ownership in these associates for a total consideration of KD 559,711. No goodwill or bargain purchase resulted from this transaction.

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

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
At 1 January	**7,977,142**	7,604,079
Additions in associates	**1,309,609**	120,000
Share of results	**2,394,021**	289,063
Dividend	**(73,266)**	(36,000)
Share of other comprehensive income of associates	**100,885**	-
At 31 December	**11,708,391**	7,977,142

Kuwait Real Estate Company – KPSC and Subsidiaries
Consolidated Financial Statements
31 December 2022

Notes to the consolidated financial statements (continued)

16 Investment in associates (continued)

16.3 Summarised financial information of the Group's material associates are set out below:

a) KREC Yotel Miami Debt Company Limited:

	31 Dec 2022 KD	31 Dec 2021 KD
Current assets	**6,169,207**	3,875,977
Total assets	**6,169,207**	3,875,977
Net assets	**6,169,207**	3,875,977

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Revenue	**1,675,863**	136,653
Profit for the year	**1,675,863**	136,653
Total comprehensive income for the year	**1,675,863**	136,653

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is give below:

	31 Dec 2022 KD	31 Dec 2021 KD
Group's ownership interest (%)	**100%**	100%
Net assets of the associate	**6,169,207**	3,875,977
Group's share of net assets	**6,169,207**	3,875,977
Carrying amount	**6,169,207**	3,875,977

Notes to the consolidated financial statements (continued)

16 Investment in associates (continued)

16.3 Summarised financial information of the Group's material associates are set out below:

b) KREC Yotel Miami Equity Company Limited:

	31 Dec 2022 KD	31 Dec 2021 KD
Current assets	**1,199,678**	765,916
Total assets	**1,199,678**	765,916
Current liabilities	**61,234**	53,297
Total liabilities	**61,234**	53,297
Net assets	**1,138,444**	712,619

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Revenue	**300,649**	-
Profit/(loss) for the year	**293,292**	(16,429)
Total comprehensive income/(loss) for the year	**293,292**	(16,429)

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is give below:

	31 Dec 2022 KD	31 Dec 2021 KD
Group's ownership interest (%)	**100%**	100%
Net assets of the associate	**1,138,444**	712,619
Group's share of net assets	**1,138,444**	712,619
Carrying amount	**1,138,444**	712,619

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

	31 Dec 2022 KD	31 Dec 2021 KD
Group's share of results	**424,866**	168,839
Group share of other comprehensive income	**100,885**	-
Group's share of the total comprehensive income	**494,287**	168,839
Aggregate carrying amount of Group's interest in associates	**4,400,740**	3,388,546
Dividends	**73,266**	36,000

Notes to the consolidated financial statements (continued)

17 Financial assets at fair value through other comprehensive income

	31 Dec 2022 KD	31 Dec 2021 KD
Local quoted securities	**6,982,493**	10,086,561
Local unquoted securities	**4,006,096**	4,931,079
Foreign unquoted securities	**13,597,189**	11,610,444
Debt instruments	**6,207,751**	5,760,449
Managed funds	**4,834,601**	4,276,075
	35,628,130	36,664,608

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

31 December 2022	**Financial services KD**	**Real estate KD**	**Consumer services KD**	**Others KD**	**Total KD**
Local quoted securities	**1,703,285**	**3,426,564**	**1,489,974**	**362,670**	**6,982,493**
Local unquoted securities	**823,773**	**66,251**	**2,626,605**	**489,467**	**4,006,096**
Foreign unquoted securities	**236,023**	**12,901,819**	**381,183**	**78,164**	**13,597,189**
Debt instruments	**-**	**6,207,751**	**-**	**-**	**6,207,751**
Managed funds	**-**	**4,834,601**	**-**	**-**	**4,834,601**
	2,763,081	**27,436,986**	**4,497,762**	**930,301**	**35,628,130**
31 December 2021					
Local quoted securities	2,183,719	4,318,603	2,861,182	723,057	10,086,561
Local unquoted securities	1,667,482	188,633	2,403,248	671,716	4,931,079
Foreign unquoted securities	236,023	10,915,916	381,183	77,322	11,610,444
Debt instruments	-	5,760,449	-	-	5,760,449
Managed funds	-	4,276,075	-	-	4,276,075
	4,087,224	25,459,676	5,645,613	1,472,095	36,664,608

Debt instruments represent promissory notes of foreign companies and carry annual interest rate 9% (31 December 2021: 9%).

Local quoted securities with carrying value of KD4,915,041 are pledged against borrowings (notes 23).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 33.2.

Notes to the consolidated financial statements (continued)

18 Properties under development

The movement in the trading properties is as follows:

	31 Dec 2022 KD	31 Dec 2021 KD
Cost		
Land costs	**2,183,842**	5,305,807
Development costs	**-**	5,071,241
Cost at the beginning of the year	**2,183,842**	10,377,048
Development costs charged for the year	**1,366,928**	4,132,676
Transferred to investment properties	**-**	(12,200,856)
Change in fair value during the year	**1,296,849**	-
Foreign currency translation adjustments	**31,515**	(125,026)
Net book value at end of the year	**4,879,134**	2,183,842

19 Investment properties

	Owned properties KD	Leased properties KD	Total KD
31 December 2022:			
At 1 January	**202,375,920**	**24,463,708**	**226,839,628**
Additions during the year (note 19.2)	**44,275,955**	**-**	**44,275,955**
Disposals during the year (Note 19.3)	**(3,465,320)**	**-**	**(3,465,320)**
Change in fair value during the year	**1,931,446**	**(7,526,042)**	**(5,594,596)**
At 31 December	**245,118,001**	**16,937,666**	**262,055,667**
31 December 2021:			
At 1 January	186,598,187	31,740,884	218,339,071
Additions during the year	4,734,445	-	4,734,445
Transferred from properties under development (Note 18)	12,200,856	-	12,200,856
Disposals during the year	(4,771,457)	-	(4,771,457)
Change in fair value during the year	3,613,889	(7,277,176)	(3,663,287)
At 31 December	202,375,920	24,463,708	226,839,628

Notes to the consolidated financial statements (continued)

19 Investment properties (continued)

19.1 The Group's investment properties are located as follows:

	31 Dec 2022 KD	31 Dec 2021 KD
Kuwait	**183,897,700**	194,765,228
UAE	**76,669,700**	30,602,372
Other MENA countries	**1,488,267**	1,472,028
	262,055,667	226,839,628

19.2 During the year, the Group acquired a property located in UAE from a related party for a total consideration of KD33,919,943 (Note 13).

19.3 During the year, the Group sold certain properties located in UAE to related parties and third parties for an aggregate sale consideration of KD3,446,258 resulting into a loss of KD19,062.

19.4 Investment properties with a carrying value of KD 216,766,190 (2021: KD164,853,150) are pledged against borrowings and due to banks (notes 20 and 23).

19.5 Leased properties represent the properties under the BOT contracts signed with the Ministry of Finance - State Properties department, Kuwait.

Note 33.3 sets out the measurement basis of fair value of the investment properties.

20 Due to banks

This represents outstanding balance of the credit facilities granted to the Group by a local Islamic bank in the form of overdraft facilities. The facilities carry an annual profit rate of 1% (2021: 1.15%) above the Central Bank of Kuwait discount rate.

The due to banks balance is secured against mortgage of certain investment properties (note 19).

Notes to the consolidated financial statements (continued)

21 Accounts payable and other liabilities

	31 Dec 2022 KD	31 Dec 2021 KD
Financial liabilities		
Accounts payable	**5,019,734**	4,588,411
Accrued interests	**1,339,383**	1,056,867
Accrued expenses and leave	**2,273,029**	1,536,926
Provision for National Labour Support Tax	**2,805,675**	2,625,097
Provision for Zakat	**665,541**	578,618
Dividends payable	**1,202,677**	1,074,784
Refundable deposits	**2,024,410**	1,691,689
Other liabilities	**898,907**	1,793,106
	16,229,356	14,945,498
Non-financial liabilities		
Advance rent	**1,906,065**	1,058,016
Other liabilities	**2,225,339**	2,755,984
	4,131,404	3,814,000
	20,360,760	18,759,498

22 Lease liabilities

The Group has leases for the properties under the BOT contracts signed with the Ministry of Finance - State Properties department, Kuwait. Following is the movement for the lease liabilities during the year:

	31 Dec 2022 KD	31 Dec 2021 KD
At 1 January	**26,906,229**	30,437,203
Finance costs charged for the year	**705,960**	954,826
Settled during the year	**(11,968,210)**	(4,485,800)
At 31 December	**15,643,979**	26,906,229

Future minimum lease payments as at 31 December 2022 and 31 December 2021 were as follows:

	Minimum lease payments due		Total
	One year KD	1 - 5 years KD	KD
31 December 2022:			
Lease payments	**8,232,000**	**8,243,005**	**16,475,005**
Finance charges	**(448,309)**	**(382,717)**	**(831,026)**
Net present values	**7,783,691**	**7,860,288**	**15,643,979**
31 December 2021:			
Lease payments	12,894,006	16,464,000	29,358,006
Finance charges	(1,776,482)	(675,295)	(2,451,777)
Net present values	11,117,524	15,788,705	26,906,229

Notes to the consolidated financial statements (continued)

23 Borrowings

	31 Dec 2022 KD	31 Dec 2021 KD
Murabaha payables (i)	**147,224,568**	136,295,020
Tawarruq payable (ii)	**-**	6,901,741
Term loans (iii)	**33,040,348**	3,563,911
Total	**180,264,916**	146,760,672
Borrowings in KD	**147,224,568**	142,204,672
Borrowings in other currencies	**33,040,348**	4,556,000
Total	**180,264,916**	146,760,672

The borrowings due for repayment as follows:

	31 Dec 2022 KD	31 Dec 2021 KD
Within one year	**5,064,136**	5,026,191
Over one year	**175,200,780**	141,734,481
	180,264,916	146,760,672

i) Murabaha payables represent Islamic financings obtained in Kuwaiti Dinar from local Islamic banks. During the year, part of the outstanding Murabaha payable amounting to KD 93,625,735 was rescheduled. Furthermore, the credit facilities of one of the outstanding Murabaha payable has been increased. Murabaha payable carry an annual profit rate of 1% (2021: 1% - 1.25%) over CBK discount rate and is repayable in different unequal instalments ending on 15 April 2030.

ii) Tawarruq payable obtained from Islamic financing was fully settled during the year.

iii) Term loans represent the following:
- Outstanding term loan of KD11,457,735 obtained in AED and USD from a foreign bank, carrying an annual interest rate of 3% – 3.5% (31 December 2021: 3.5%) over EIBOR and repayable in semi-annual various instalments ending on 15 November 2030.
- Outstanding term loan denominated in USD from a related party to KD1,853,631, carrying an annual interest rate of 6.5% (31 December 2021: 6.5%) and repayable in semi-annual instalments ending on 30 June 2024.
- A new term loan in AED equivalent to KD20,354,277 from a foreign bank, carrying an annual interest rate of 2.75% (31 December 2021: Nil) over EIBOR and repayable in semi-annual various instalments ending on 30 June 2030.

Borrowings are secured by pledge of Group's investment in certain subsidiaries, financial assets at FVTOCI, investment properties and trading properties (notes 7.8, 15, 17 and 19).

24 Share capital and share premium

At 31 December 2022, the authorized, issued and fully paid up share capital of the Parent Company comprised of 947,365,059 shares of 100 fils each (947,365,059 shares as at 31 December 2021). All shares are cash shares.

The share premium is non-distributable.

Notes to the consolidated financial statements (continued)

25 Treasury shares

	31 Dec 2022	31 Dec 2021
	KD	KD
Number of treasury shares	**28,011,397**	35,704,587
Percentage of ownership (%)	**2.96%**	3.77%
Market value (KD)	**2,997,219**	6,319,712
Cost (KD)	**3,214,552**	5,735,769

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

26 Statutory and voluntary reserves

Statutory reserve

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

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

Voluntary reserve

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

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

The movement in the statutory and voluntary reserves is as follows:

	Statutory reserve KD	**Voluntary reserve KD**	**Total KD**
Balances at 1 January 2022	**17,560,281**	**5,404,126**	**22,964,407**
Transfer from retained earnings during the year	**760,490**	**760,490**	**1,520,980**
Balances at 31 December 2022	**18,320,771**	**6,164,616**	**24,485,387**
Balances at 1 January 2021	16,903,225	4,747,070	21,650,295
Transfer from retained earnings during the year	657,056	657,056	1,314,112
Balances at 31 December 2021	17,560,281	5,404,126	22,964,407

Notes to the consolidated financial statements (continued)

27 Other components of equity

Movement in other components of equity is as follows:

	Treasury shares reserve KD	Foreign currency translation reserve KD	Cumulative changes in fair value KD	Total KD
Balances at 1 January 2022	**7,237,493**	**(509,017)**	**(22,584,300)**	**(15,855,824)**
Bonus shares distribution (note 30)	**(284,562)**	**-**	**-**	**(284,562)**
Loss on sale of treasury shares	**(860,656)**	**-**	**-**	**(860,656)**
Loss on sale of financial assets at FVTOCI	**-**	**-**	**291,683**	**291,683**
Other comprehensive income:				
Change in fair value of financial assets at FVTOCI	**-**	**-**	**(2,955,139)**	**(2,955,139)**
Share of other comprehensive income of associates	**-**	**-**	**69,421**	**69,421**
Share of gain on sale of financial assets at FVTOCI of an associate	**-**	**-**	**(31,464)**	**(31,464)**
Currency translation differences	**-**	**479,369**	**-**	**479,369**
Balances at 31 December 2022	**6,092,275**	**(29,648)**	**(25,209,799)**	**(19,147,172)**
Balances at 1 January 2021	3,905,541	(210,246)	(19,064,164)	(15,368,869)
Bonus shares distribution (note 30)	1,391,024	-	-	1,391,024
Gain on sale of treasury shares	1,940,928	-	-	1,940,928
Gain on sale of financial assets at FVTOCI	-	-	(9,672,447)	(9,672,447)
Other comprehensive loss:				
Change in fair value of financial assets at FVTOCI	-	-	6,152,311	6,152,311
Currency translation differences	-	(298,771)	-	(298,771)
Balances at 31 December 2021	7,237,493	(509,017)	(22,584,300)	(15,855,824)

Notes to the consolidated financial statements (continued)

28 Reconciliation of liabilities arising from financing activities

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

	Borrowings KD	Lease liabilities KD	Due to bank KD	Total 2022 KD
Balance at 1 January	**146,760,672**	**26,906,229**	**4,470,735**	**178,137,636**
Cash flows:				
• Repayment	**(53,403,517)**	**(11,968,210)**	**(66,321,942)**	**(131,693,669)**
• Proceeds	**86,783,433**	**-**	**64,944,307**	**151,727,740**
Non-cash transactions:				
• Charged during the year	**-**	**705,960**	**-**	**705,960**
• Foreign currency	**124,328**	**-**	**-**	**124,328**
31 December	**180,264,916**	**15,643,979**	**3,093,100**	**199,001,995**
Balance at 1 January	144,940,559	30,437,203	4,448,934	179,826,696
Cash flows:				
• Repayment	(8,079,089)	(4,485,800)	(56,414,794)	(68,979,683)
• Proceeds	9,899,203	-	56,436,595	66,335,798
Non-cash transactions:				
• Charged during the year	-	954,826	-	954,826
31 December	146,760,673	26,906,229	4,470,735	178,137,637

Notes to the consolidated financial statements (continued)

29 Related party transactions and balances

Related parties represent associates, directors and key management personnel of the Group, major shareholders and companies in which directors and key management personnel of the Parent Company are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Parent Company management.

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

	31 Dec 2022 KD	31 Dec 2021 KD
Amounts included in the consolidated financial position:		
Due from related parties	**12,709,129**	10,231,581
Due to related parties	**7,937,827**	10,617,587
Due on sale of investment properties (note 14)	**30,043**	-
Advance payments for purchase of investments	**-**	17,230,565
Purchase of investment in associate (note 16.1.2)	**559,711**	-
Purchase of investment properties (note 19.2)	**33,919,943**	-
Borrowings (note 23)	**1,853,631**	1,833,660

Financial assets at fair value through other comprehensive income amounting to KD 1,062,899 (2021: KD1,434,499) and financial assets at fair value through profit or loss amounting to KD 76,512 (31 December 2021: KD126,864) are managed by a related party.

	Year ended 31 Dec 2022 KD	Year ended 31 Dec 2021 KD
Transactions included in the consolidated statement of profit or loss:		
Real estate rental income	**2,620,087**	2,683,733
Real estate operating expenses	**807,865**	760,252
Other income	**466,397**	-
General and administrative expenses	**390,768**	443,968
(Loss) / gain on sale of investment properties	**(27,390)**	601,986
Finance costs	**120,486**	119,188
Provision charge for doubtful debts (see below)	**140,425**	1,848,990
Key management compensation:		
Salaries and short-term benefits	**285,640**	285,640
End of service benefits	**5,500**	5,500
Board of Directors' remuneration	**40,000**	40,000

At the reporting date and according to the Group's management assessment for the expected credit losses, the Group recognised a provision for doubtful debts amounting to KD140,425 (2021: KD1,848,990) against amount due from related parties as the management believe that there is no reasonable expectation of recovery for the outstanding balance from that related party.

During the year, the Group sold investment properties to related parties for a total consideration of KD1,927,000. No gain or loss resulted from the sale transaction. The sale consideration has been recognised as due from related parties (note 19.3).

Notes to the consolidated financial statements (continued)

30 Proposed dividends and annual general assembly

Subsequent to the date of the consolidated statement of financial position, the board of directors have proposed to distribute cash dividends of 3 Fils per share and 3% bonus share from treasury shares for the shareholders of the Parent Company without an increase in share capital or increase in number of issued shares for the year ended 31 December 2022. The directors also propose remuneration to the board of directors of KD40,000. These proposals are subject to the approval of the general assembly and the regulatory authorities.

The Annual General Assembly of the shareholders of the Parent Company held on 8 May 2022 approved the consolidated financial statements for the year ended 31 December 2021 and the board of directors' proposal to distribute cash dividends of 3 Fils (2020: Nil) per share and 3% (2020: 5%) bonus shares for the shareholders of the Parent Company by distributing 3 treasury shares for each 100 shares without an increase in share capital or increase in number of issued shares for the year ended 31 December 2021. Furthermore, the General Assembly approved the board of directors' proposal to distribute directors' remuneration of KD40,000 for the year then ended (2020: KD Nil).

31 Segmental analysis

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

	Real estate KD	Investment KD	Unallocated KD	Total KD
Year ended 31 December 2022:				
Income	**15,680,277**	**2,700,470**	**1,522,212**	**19,902,959**
Profit/(loss) for the year	**7,447,825**	**2,485,522**	**(2,393,740)**	**7,539,607**
Total assets	**275,217,014**	**54,153,794**	**31,160,986**	**360,531,794**
Total liabilities	**199,001,996**	**20,360,764**	**9,130,446**	**228,493,206**
Net assets	**76,215,018**	**33,793,030**	**22,030,540**	**132,038,588**
31 December 2021:				
Income	14,367,999	1,890,679	1,067,646	17,326,324
Profit/(loss) for the year	8,924,787	1,890,679	(3,684,366)	7,131,100
Total assets	239,583,543	69,012,258	32,563,648	341,159,449
Total liabilities	178,137,638	24,285,096	6,157,137	208,579,871
Net assets	61,445,905	44,727,162	26,406,511	132,579,578

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies

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

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

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

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

32.1 Market risk

(a) Foreign currency risk

The Group mainly operates in the GCC, other Middle Eastern countries, Europe and USA, and thus is exposed to foreign currency risk arising from various foreign currency exposures. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities and net investments in foreign operations.

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

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

	31 Dec 2022	31 Dec 2021
	KD	KD
USD	**31,621,137**	35,821,596
Euro	**805,567**	805,567
GBP	**7,042,251**	7,247,558
AED	**67,831,336**	26,728,131

The following table details the Group's sensitivity to a 2% (2021: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the yearend for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	31 Dec 2022	31 Dec 2021
	KD	KD
Results for the year	**1,578,279**	915,353
Equity	**567,726**	496,704

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

Notes to the consolidated financial statements (continued)

33 Risk management objectives and policies (continued)

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to borrowing and due to banks.

The following table illustrates the sensitivity of the results for the year to a reasonably possible change in interest rates of +100 bps (1%) and –100 bps (1%) (2021: +100 bps (1%) and –100bps (1%)) with effect from the beginning of the year. The calculations are based on the Group's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	31 Dec. 2022		31 Dec. 2021	
	+ 1 %	**-1 %**	+ 1 %	-1 %
	KD	**KD**	KD	KD
Results for the year	**(1,833,580)**	**1,833,580**	(1,512,314)	1,512,314

(c) Price risk

The Group is exposed to equity price risk with respect to its equity investments and debt instruments. These financial assets are classified either at fair value through profit or loss or at fair value through other comprehensive income.

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

The below table shows the sensitivity analysis for the Group with regard to its investment in securities and debt instruments, 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% (2021: 5%) higher, the effect on the result for the year and equity would have been as follows.

	Result for the year		**Equity**	
	31 Dec. 2022	31 Dec. 2021	**31 Dec. 2022**	31 Dec. 2021
	KD	KD	**KD**	KD
Financial assets at fair value through profit or loss	**340,864**	356,997	**-**	-
Financial assets at FVTOCI	**-**	-	**1,781,407**	1,833,230
	340,864	356,997	**1,781,407**	1,833,230

If prices of financial securities had been 5% (2021: 5%) lower, the effect on the results for the year and equity would have been equally the reverse as disclosed above.

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies (continued)

33.2 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. 2022 KD	31 Dec. 2021 KD
Financial assets at fair value through other comprehensive income	**5,897,500**	5,727,637
Financial assets at fair value through profit or loss	**94,350**	126,864
Due from related parties	**12,709,129**	10,231,581
Accounts receivable and other assets	**6,854,112**	6,371,133
Cash and cash equivalents	**8,606,784**	15,201,669
	34,161,875	37,658,884

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

The credit risk for bank balances is considered negligible, since the counterparties are financial institution with high credit quality, except for restricted bank balances amount of KD41,233 (31 December 2021: KD82,602) located in Lebanon. Most of the global credit rating agencies significantly lowered the ratings of Lebanon as well the banker of the subsidiary because of the consequences of the economic and political events prevailing in Lebanon.

Information on other significant concentrations of credit risk is set out in note 32.4.

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies (continued)

32.3 Liquidity risk

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

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

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

31 December 2022	**1 - 3 months KD**	**3 - 12 months KD**	**Over 1 year KD**	**Total KD**
Liabilities				
Borrowings	**2,300,000**	**2,764,136**	**175,200,780**	**180,264,916**
Lease liabilities	**-**	**7,783,691**	**7,860,288**	**15,643,979**
Provision for employees' end of services benefits	**-**	**-**	**1,192,624**	**1,192,624**
Due to related parties	**-**	**7,937,827**	**-**	**7,937,827**
Accounts payable and other liabilities		**20,360,760**	**-**	**20,360,760**
Due to banks	**3,093,100**	**-**	**-**	**3,093,100**
	5,393,100	**38,846,414**	**184,253,692**	**228,493,206**
31 December 2021				
Liabilities				
Borrowings	-	5,026,191	141,734,481	146,760,672
Lease liabilities	-	11,177,524	15,788,705	26,966,229
Provision for employees' end of services benefits	-	-	1,065,150	1,065,150
Due to related parties	-	10,617,587	-	10,617,587
Accounts payable and other liabilities	-	18,759,498	-	18,759,498
Due to banks	4,470,735	-	-	4,470,735
	4,470,735	45,580,800	158,588,336	208,639,871

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

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies (continued)

32.3 Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2022:

	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Assets				
Property and equipment	-	-	812,309	812,309
Investment properties	-	-	262,055,667	262,055,667
Capital work in progress	-	131,015	-	131,015
Properties under development	-	4,879,134	-	4,879,134
Financial assets at fair value through other comprehensive income	-	-	35,628,130	35,628,130
Investment in associates	-	-	11,708,391	11,708,391
Trading properties	-	8,151,197	-	8,151,197
Due from related parties	-	12,709,129	-	12,709,129
Accounts receivable and other assets	-	9,032,765	-	9,032,765
Financial assets at fair value through profit and loss	-	6,817,273	-	6,817,273
Cash and cash equivalents (see below)	8,606,784	-	-	8,606,784
	8,606,784	41,720,513	310,204,497	360,531,794
Liabilities				
Borrowings	2,300,000	2,764,136	175,200,780	180,264,916
Lease liabilities	-	7,783,691	7,860,288	15,643,979
Provision for employees' end of service benefits	-	-	1,192,624	1,192,624
Due to related parties	-	7,937,827	-	7,937,827
Accounts payable and other liabilities	-	20,360,760	-	20,360,760
Due to bank	3,093,100	-	-	3,093,100
	5,393,100	38,846,414	184,253,692	228,493,206
Net liquidity gap	3,213,684	2,874,099	125,950,805	132,038,588

As of 31 December 2022, there are certain restrictions on the liquidity of cash and cash equivalents amounting to KD41,233 (31 December 2021: KD82,602) (note 11).

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies (continued)

32.3 Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2021:

	1 - 3 months KD	3 - 12 months KD	Over 1 year KD	Total KD
Assets				
Property and equipment	-	-	44,182	44,182
Investment properties	-	-	226,839,628	226,839,628
Capital work in progress	-	1,832,421	-	1,832,421
Properties under development	-	2,183,842	-	2,183,842
Financial assets at fair value through other	-	-	36,664,608	36,664,608
comprehensive income	-	-	7,977,142	7,977,142
Investment in associates	-	8,727,651	-	8,727,651
Trading properties	-	10,231,581	-	10,231,581
Due from related parties	-	7,086,217	-	7,086,217
Accounts receivable and other assets	-	17,230,565	-	17,230,565
Advance payments for purchase of investments	-	7,139,943	-	7,139,943
Financial assets at fair value through profit and loss	15,201,669	-	-	15,201,669
Cash and cash equivalents (see below)	15,201,669	54,432,220	271,525,560	341,159,449
Liabilities				
Borrowings	117,338	4,908,853	141,734,481	146,760,672
Lease liabilities	-	11,117,524	15,788,705	26,906,229
Provision for employees' end of service benefits	-	-	1,065,150	1,065,150
Due to related parties	-	10,617,587	-	10,617,587
Accounts payable and other liabilities	-	18,759,498	-	18,759,498
Due to bank	4,470,735	-	-	4,470,735
	4,588,073	45,403,462	158,588,336	208,579,871
Net liquidity gap	10,613,596	9,028,758	112,937,224	132,579,578

Notes to the consolidated financial statements (continued)

32 Risk management objectives and policies (continued)

32.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2022 and 2021 are as follows:

	Kuwait KD	Other Middle Eastern Countries KD	USA, Europe and other countries KD	Total KD
As of 31 December 2022				
Financial assets at fair value through other comprehensive income	**7,241,814**	**-**	**28,386,316**	**35,628,130**
Due from related parties	**12,709,129**	**-**	**-**	**12,709,129**
Accounts receivable and other assets	**8,298,405**	**-**	**734,360**	**9,032,765**
Financial assets at fair value through profit or loss	**202,012**	**-**	**6,615,261**	**6,817,273**
Cash and cash equivalents	**7,887,052**	**247,942**	**471,790**	**8,606,784**
	36,338,412	**247,942**	**36,207,727**	**72,794,081**
As of 31 December 2021				
Financial assets at fair value through other comprehensive income	11,646,701	-	25,017,907	36,664,608
Due from related parties	10,231,581	-	-	10,231,581
Accounts receivable and other assets	6,850,102	-	236,115	7,086,217
Financial assets at fair value through profit or loss	369,566	-	6,770,377	7,139,943
Cash and cash equivalents	13,221,492	498,536	1,481,641	15,201,669
	42,319,442	498,536	33,506,040	76,324,018

33 Fair value measurement

33.1 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

33.2 Fair value measurement of financial instruments

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

	31 Dec 2022 KD	31 Dec 2021 KD
Financial assets:		
At amortised cost:		
Due from related parties	**12,709,129**	10,231,581
Accounts receivable and other assets	**6,854,112**	6,371,133
Cash and cash equivalents	**8,606,784**	15,201,669
At fair value:		
Financial assets at fair value through profit or loss	**6,817,273**	7,139,943
Financial assets at fair value through other comprehensive income	**35,628,130**	36,664,608
	70,615,428	75,608,934
Financial liabilities:		
Financial liabilities at amortised cost		
Borrowings	**180,264,916**	146,760,672
Lease liabilities	**15,643,979**	26,906,229
Provision for employees' end of service benefits	**1,192,624**	1,065,150
Due to related parties	**7,937,827**	10,617,587
Accounts payable and other liabilities	**20,360,760**	18,759,498
Due to bank	**3,093,100**	4,470,735
	228,493,206	208,579,871

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

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

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

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

33.2 Fair value measurement of financial instruments (continued)

31 December 2021

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets				
Financial assets at fair value through profit or loss:				
Local quoted securities	**103,096**	**-**	**-**	**103,096**
Local unquoted securities	**-**	**-**	**81,895**	**81,895**
Foreign quoted securities	**2,271**	**-**	**-**	**2,271**
Foreign unquoted securities	**-**	**-**	**6,612,173**	**6,612,173**
Managed funds	**-**	**17,838**	**-**	**17,838**
Financial assets at fair value through other comprehensive income:				
Local quoted securities	**6,982,493**	**-**	**-**	**6,982,493**
Local unquoted securities	**-**	**-**	**4,006,096**	**4,006,096**
Foreign unquoted securities	**-**	**-**	**13,597,189**	**13,597,189**
Debt instruments	**-**	**-**	**6,207,751**	**6,207,751**
Managed funds	**-**	**4,834,601**	**-**	**4,834,601**
	7,087,860	**4,852,439**	**30,505,104**	**42,445,403**

31 December 2021

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets				
Financial assets at fair value through profit or loss:				
Local quoted securities	154,540	-	-	154,540
Local unquoted securities	-	-	195,500	195,500
Foreign quoted securities	1,988	-	-	1,988
Foreign unquoted securities	-	-	6,770,382	6,770,382
Managed funds	-	17,533	-	17,533
Financial assets at fair value through other comprehensive income:				
Local quoted securities	10,086,561	-	-	10,086,561
Local unquoted securities	-	-	4,931,079	4,931,079
Foreign unquoted securities	-	-	11,610,444	11,610,444
Debt instruments	-	-	5,760,449	5,760,449
Managed funds	-	4,276,075	-	4,276,075
	10,243,089	4,293,608	29,267,854	43,804,551

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

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

33.2 Fair value measurement of financial instruments (continued)

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

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

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

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

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

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

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

Market share assumptions

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

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

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

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

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

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

33.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements

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

	31 Dec. 2022 KD	31 Dec. 2021 KD
Opening balance	**29,267,854**	34,291,106
Additions	**1,716,041**	3,483,845
Disposals	**(248,639)**	(6,266,581)
Change in fair value	**(230,152)**	(2,240,516)
Closing balance	**30,505,104**	29,267,854

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

33.3 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2022 and 31 December 2021:

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2022				
Investment properties				
- in Kuwait	**-**	**-**	**183,897,700**	**183,897,700**
- in UAE	**-**	**-**	**76,669,700**	**76,669,700**
- in other MENA countries	**-**	**-**	**1,488,267**	**1,488,267**
Properties under development				
- in UAE	**-**	**-**	**4,879,134**	**4,879134**
	-	**-**	**266,934,801**	**266,934,801**
31 December 2021				
Investment properties				
- in Kuwait	-	-	194,765,228	194,765,228
- in UAE	-	-	30,602,372	30,602,372
- in other MENA countries	-	-	1,472,028	1,472,028
	-	-	226,839,628	226,839,628

The fair values of all investment properties have been determined based on valuations obtained from independent and accredited valuers for each investment property, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. As of 31 December 2022 and 2021, for the valuation purpose, the Group has selected the lower value of the two valuations obtained for each local investment property.

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

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

Properties

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

Land

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

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

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Buildings				
Kuwait	Estimated rental stream approach	Monthly economic rental value	KD 333 to KD 9,000 (2021: KD 330 to KD3,925)	Fair value increases if economic rental value increases, and vice versa.
UAE	Estimated rental stream approach	Monthly economic rental value	KD119 to KD 207 (2021: KD 60 to KD 158)	Fair value increases if economic rental value increases, and vice versa.
Land				
Kuwait	Market comparison approach	Estimated market price (per sq ft.)	KD 3 to KD 252 (2021: KD 2 to KD 218)	Higher the price per square meter, higher the fair value
UAE	Market comparison approach	Estimated market price (per sq ft.)	KD 3 to KD 27 (2021: KD 2 to KD 2)	Higher the price per square meter, higher the fair value
Other MENA countries	Market comparison approach	Estimated market price (per sq ft.)	KD 13 to KD 13 (2021: KD13 to KD13)	Higher the price per square meter, higher the fair value

Notes to the consolidated financial statements (continued)

33 Fair value measurement (continued)

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

Level 3 Fair value measurements

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

	31 Dec. 2022 KD	31 Dec. 2021 KD
Opening balance	**226,839,628**	218,339,071
Additions	**45,642,883**	4,734,445
Transferred from properties under development	**2,183,842**	12,200,856
Disposals during the year	**(3,465,320)**	(4,771,457)
Changes in fair value	**(4,297,747)**	(3,663,287)
Foreign currency translation adjustments	**31,515**	-
Closing balance	**266,934,801**	226,839,628

34 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. 2022 KD	31 Dec. 2021 KD
Borrowings (note 23)	**180,264,916**	146,760,672
Due to bank (note 20)	**3,093,100**	4,470,735
Lease liabilities (note 22)	**15,643,979**	26,906,229
Less:		
Cash and cash equivalents (note 11)	**(8,606,784)**	(15,201,669)
Net debt	**190,395,211**	162,935,967
Equity	**132,038,588**	132,579,578
Net debt to equity ratio	**144%**	123%

Notes to the consolidated financial statements (continued)

35 Contingent liabilities and commitments

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

	31 Dec. 2022	31 Dec. 2021
	KD	KD
Issued letters of guarantee	**10,964,278**	10,773,828
Capital commitments	**6,130,046**	1,748,508
	17,094,324	12,522,336

Lease commitments arising on the agreements signed for with the Ministry of Finance – State Properties Department for maintain, develop and operate certain properties owned by the government. However, as a result of adoption of IFRS 16 starting from 1 January 2019, commitments from those contracts have been recognised on consolidated statement of financial position (Note 22).

36 Operating leases

Operating leases, in which the Group is the lessor, relate to investment properties owned or leased by the Group as well as held under head-lease arrangements. The terms of operating leases range between 1-5 years with one-year extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the end of lease term.

38 Covid-19 Pandemic Impact

Operating leases, in which the Group is the lessor, relate to investment properties owned or leased by the Group as well as held under head-lease arrangements. The terms of operating leases range between 1-5 years with one-year extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the end of lease term.

37 Listing on Dubai Financial Market

On 18 May 2021, the Annual General Assembly of the shareholders of the Parent Company approved the Board of Directors proposal of listing the Parent Company's shares on Dubai Financial Market ("DFM").

On 11 July 2021, the Capital Markets Authority approved the Parent Company's request for listing of its shares on DFM.

During the year, the Parent Company received a letter from DFM advising that the listing of the Parent Company's shares has not been approved by DFM.

38 Comparative amounts

Certain comparative amounts have been reclassified to conform to the presentation in the current year. Such reclassification does not affect previously reported net assets, net equity, net results for the year or net increase in cash and cash equivalents.

AQARAT

عقارات