Arabella Hotel
Al Bidaa - Kuwait

Block A
Al Riggae - Kuwait

Souk AlKuwait Building
Kuwait City - Kuwait

# 2019
## annual report

AQARAT
عقارات

AQARAT
عقارات

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

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

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

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

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

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# BOARD MEMBERS

**Ibrahim Saleh Al Therban**
Chairman

**Talal Jassim Al Bahar**
Vice Chairman and CEO

**Ahmad Faisal Al Qatami**
Board Member

**Hamed Mohammad Al Aiban**
Board Member

**Marzouq Jassim Al Bahar**
Board Member

**Mohamed Issam Al Bahar**
Board Member

**Mishari Ahmed Al Ajeel**
Board Member

**Mishari Abdullah Al Dakhil**
Board Member


BE
EMPOWERED TOGETHER

# 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

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

Fahad Husam Al-Shamlan
Vice President
Investments & Acquisitions

Eng. Naser Mohammed Al-Bader
Vice President
Facilities Management

Maher S. Khalaf
Assistant Vice President
Finance

Mohammed Nouri Al-Hamad
Manager
Human Resources and Administration

# CHAIRMAN'S MESSAGE

**Ibrahim S. Al-Therban**
**Chairman**

**Honorable Shareholders,**

**Greetings to All,**

On my behalf and on the behalf of my colleagues' the members of the Board of Directors, I am pleased to present to you the annual financial report of the company and its subsidiaries for the fiscal year ended on 31 December, 2019, which highlights the company's important achievements and financial statements over the past year.

## Financial Performance

As a result of the management's efforts to achieve its desired objectives in accordance with the company's strategy, I am pleased to announce that the company achieved a profit of 7.045 million Kuwaiti Dinars compared to 6.747 million Kuwaiti Dinars in 2018. This is equivalent to 8.26 fils per share in 2019 compared to 7.54 fils per share in 2018, an increase in 4.4%.
Rental income has increased by 35.9%, reaching KD 23.7 million in comparison to KD 17.4 million in 2018. The company has recorded a decrease in operating expenses from KD 7.2 million in 2019 to KD 3 million in 2018 as a result of applying the new accounting standards.

In addition, the company's assets rose to KD 326.9 million in comparison to KD 270.9 million in 2018. This increase is due to the company's investments in real estate portfolio by opting for non-cash acquisition of International Resorts Company and by applying the new accounting standards.

## Company's Performance

### At the Local level

In 2019, Kuwait Real Estate Company acquired a non-cash option on the shares of International Resorts Company K.S.P.C. The results of the acquisition came according to studies developed by the company. During the year, the construction of an 8-story residential tower in Al Riggae was completed and has been added to the company's group of income generating real estate assets. The company has commenced leasing of the building.
The final studies and designs for establishing a hotel inside the Arabella Complex have been completed. Construction is due to begin in the third quarter of the upcoming year.
Towards the end of 2019, the company signed an initial purchase agreement to acquire three fully leased buildings which will be funded by a local bank, the process is expected to be completed during the second half of 2020.

### At the Arab and Gulf level

In the last quarter of 2019, a subsidiary of Kuwait Real Estate Company acquired The 8: House of Originals- Palm Jumeriah, located in Dubai. a property managed by the world renowned SBE Group. The property represents its first hotel in the Gulf & Middle East. The transaction is worth is KD32.7 million. The project consists of 162 hotel apartments units along with various facilities expected to open in December of 2020.

The company has also embarked on a new line of business to supplement its real estate platform which aims to eventually provide housing for workers across the region. The initial project consists of five residential towers to accommodate more than five thousand workers in Dubai Production City. The first phase of the construction of the project began in the third quarter of 2019, the buildings will eventually house two thousand employees in the third quarter of 2020.

The company also owns several real estate assets in UAE, Bahrain, and Lebanon and continuously examines the appropriate opportunities in terms of exit or development of these assets.

## At International level

In February 2019, the company officially opened Yotel San Francisco, located on the West Coast of the United States. The hotel is located in the heart of San Francisco's main thoroughfare, Market Street, in the historic Grant Building. The building has been renovated and it's unique features have been restored to their original grandeur. The property consist of 203 hotel cabins.

Also in February, Kuwait Real Estate Company, alongside with its partner Aria Company Development Corporation, started construction on Yotel Miami. The development is currently 40% complete and expected to open in the second half of 2021. The mixed used project will include 233 housing units and 215 hotel rooms. All 233 residential units were sold to investors as of June of last year.

During the coming periods it is expected that some of the company's assets in the United states will be divested of due to the improvement in prices.

## Plans for 2020

The company will continue implementing the plan by the Board of Directors aimed at expanding investments in income producing and development assets. KREC also plans to explore real estate investment opportunities inside and outside Kuwait with attractive returns and benefits to shareholders and the company. The company will continue to diversify our sources of income with regard to the company's presence in various markets.

## In Conclusion,

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

# VISION AND MISSION


Souk Al Kuwait
Kuwait City

**Vision**

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

**Mission Statement**

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

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

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

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

We are selective and purposeful when evaluating new business opportunities.

Arabella New Hotel
Al Bidaa

**Core Values**

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

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

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

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

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

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

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

# ANNUAL CORPORATE GOVERNANCE REPORT

# ANNUAL CORPORATE GOVERNANCE REPORT

## About the formation of the Board of Directors

| * | Name | Description of the member | Qualifications and expertise | | Date of election or appointment |
|---|---|---|---|---|---|
| 1 | **Ibrahim Saleh Al-Therban** | (Chairman of the Board) Non-executive member | Bachelor of Commerce | More than 44 years of experience in the field of investment, finance and economy. | 30/05/2018 |
| 2 | **Talal Jasim Al-Bahar** | (Deputy Chairman) and Chief Executive Director Executive member | Bachelor of Business Administration | More than 15 years of experience in the field of investment and real estate development. | 30/05/2018 |
| 3 | **Marzouq Jasim Al-Bahar** | Non-executive member | Bachelor of Business Studies | More than 8 years of experience in marketing, development and business administration. | 30/05/2018 |
| 4 | **Ahmad Faisal Al-Qatami** | Independent member | Bachelor of Business Administration | More than 18 years of experience in financing and banking. | 30/05/2018 |
| 5 | **Meshari Abdullah Al-Dakhil** | Independent member | Bachelor of Business Management | More than 28 years of experience in finance and commercial laws. | 30/05/2018 |
| 6 | **Meshari Ahmad Al-Ajeel** | Non-executive member | Bachelor of Finance and Financial Institutions | More than 10 years of experience in investment, and assets and portfolio management. | 30/05/2018 |
| 7 | **Mohammad Essam Al-Bahar** | Non-executive member | Bachelor of Business Administration | More than 9 years of experience in management and development. | 30/05/2018 |
| 8 | **Hamed Mohammad Al-Aiban** | Non-executive member | Bachelor of Business Administration | More than 34 years of experience in the financial sector, investments, banking and management. | 30/05/2018 |
| * | Amal Mohammad Al-Ashab | Board Secretary | Bachelor of financial and banking sciences | 25 years of experience in secretarial work with the executive management | 30/05/2018 |

# ANNUAL CORPORATE GOVERNANCE REPORT

**Meetings held by the Board during 2019:**

| Name | Meeting No. 1 held on 22/01/2019 | Meeting No. 2 held on 14/03/2019 | Meeting No. 3 held on 27/03/2019 | Meeting No. 4 held on 12/05/2019 | Meeting No. 5 held on 18/07/2019 | Meeting No. 6 held on 06/11/2019 | Number of meetings | Attendance % |
|---|---|---|---|---|---|---|---|---|
| **Ibrahim Saleh Al-Therban** Chairman of the Board - Non-executive member | √ | √ | | √ | √ | √ | 5 | 83% |
| **Talal Jassim Al-Bahar** Deputy Chairman of the Board (Executive) | √ | √ | √ | √ | √ | √ | 6 | 100% |
| **Marzouq Jassim Al-Bahar** Non-executive member | √ | √ | √ | √ | √ | √ | 6 | 100% |
| **Hamed Mohammad Al-Aiban** Non-executive member | √ | √ | √ | √ | √ | √ | 6 | 100% |
| **Ahmad Faisal Al-Qatami** Independent member | √ | √ | √ | √ | √ | √ | 6 | 100% |
| **Mshari Abdullah Al Dakhil** Independent member | √ | √ | √ | √ | √ | √ | 6 | 100% |
| **Mohammad Issam Al-Bahar** Non-executive member | √ | √ | | √ | √ | √ | 5 | 83% |
| **Mshari Ahmad Al-Ajeel** Non-executive member | √ | √ | √ | √ | √ | | 5 | 83% |
| **Amal Mohammad Al-Ashab** Secretary | √ | √ | √ | √ | √ | √ | 6 | 100% |

- The Board of Directors was formed on 30 May 2018 for the three following years (2018-2021).

# ANNUAL CORPORATE GOVERNANCE REPORT

- **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.

- **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.
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. 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.

# ANNUAL CORPORATE 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 Mr. Anwar Al-Qatami.
7. Following up on the Company's activities with the Executive Management and holding periodic meetings.
8. Discussing the independent consultant's report on reviewing the performance evaluation of the Company's internal auditor for the past three years.
9. 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.
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.

# ANNUAL CORPORATE 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:

| Nominations and Remunerations Committee | Date of Formation | Members of the Committee | | Number of meetings during 2019 |
|---|---|---|---|---|
| | 30 May 2018 for a period of three years | Ahmad Faisal Al-Qatami | Chairman | 4 |
| | | Marzouq Jasim Al-Bahar | Non-executive member | |
| | | Mohammad Issam Al-Bahar | Non-executive member | |
| | | Amal Mohammad Al-Ashab | Secretary | |

Tasks and accomplishments of the Nominations and Remunerations 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. Performing any other responsibilities entrusted to the Committee by the Board of Directors in accordance with the approved system of powers.

# ANNUAL CORPORATE GOVERNANCE REPORT

| Nominations and Remunerations Committee | Date of Formation | Members of the Committee | | Number of meetings during 2019 |
|---|---|---|---|---|
| | 30 May 2018 and for a period of three years | Ibrahim Saleh Al-Therban | Chairman | 1 |
| | | Meshari Abdullah Al-Dakhil | Independent member | |
| | | Mohammad Issam Al-Bahar | Non-executive member | |
| | | Amal Al-Ashab | Secretary | |

Tasks and accomplishments of the Nominations and Remunerations Committee

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. Preliminary approving the plan for the rotation and replacement of executive positions and submitting the plan to the Board of Directors for final approval.
9. Developing job descriptions for executive, non-executive and independent board members.
10. Recommending the nomination or re-nomination of independent members by the General Assembly, and ensuring independence of the independent board member is not denied.
11. Submitting recommendations to the Board of Directors to appoint members of the Executive Management and vacant leadership positions in accordance with the approved policies and standards, in a manner that does not contradict with the instructions and regulations.
12. 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.

# ANNUAL CORPORATE GOVERNANCE REPORT

| Audit Committee | Date of Formation | Members of the Committee | | Number of meetings during 2019 |
|---|---|---|---|---|
| | 30 May 2018 and for a period of three years | Marzouq Jasem Al-Bahar | Chairman | 4 |
| | | Ahmad Faisal Al-Qatami | Independent member | |
| | | Meshari Abdullah Al-Dakhil | Independent member | |
| | | Amal Al-Ashab | Secretary | |

Tasks and accomplishments of the audit committee

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

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

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

Remunerations, benefits and privileges granted to members of the Board of Directors and Executive Management for the year 2019:

| Type of the remuneration | Members of the Board of Directors | Executive Management |
|---|---|---|
| Fixed remunerations (including wages and main salaries) | 0 | 489,973.457 |
| Variable remunerations | 40,000 | 251,181 |
| End of service remunerations | 0 | 43,038.294 |

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.

# ANNUAL CORPORATE 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 Chief Executive Officer**
**And Chief Financial Officer**
**To the Integrity and fairness of financial statements**

We, the Deputy Chairman, Chief Executive Officer and Assistant to the Deputy of the Chief Financial Officer, 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 2019
- 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 2019 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**
Deputy Chairman and Chief Executive Officer

**Maher Samir Khalaf**
AVP - Finance

# ANNUAL CORPORATE 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 2019, 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 Jasim Al-Bahar** | Deputy Chairman of the Board and Chief Executive Officer | |
| **Marzouq Jasem Al-Bahar** | Member of the Board of Directors | |
| **Mohammad Essam 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 | |
| **Meshari Ahmad Al-Ajeel** | Member of the Board of Directors | |

# ANNUAL CORPORATE GOVERNANCE REPORT

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

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

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

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

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

- **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.

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

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

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

- **Internal Control Systems**

The Company relies on a set of control systems and regulatory rules covering all activities and departments of the Company. These systems and rules maintain the integrity of the financial position of the Company, the accuracy of its data and the efficiency of its operations in various aspects. The organizational structure sets out the responsibilities and clearly determines the structural relations authorities. It also reflects the Company's strategy and investment structure. The Board of Directors has delegated the Company's Executive Management to conduct the Company's daily operations, under the 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, 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.

# ANNUAL CORPORATE GOVERNANCE REPORT

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

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

- **Charter of Professional Code of Conducts Standards and Indicators**

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

- **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.

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

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

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

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

# ANNUAL CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

- **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.

# ANNUAL CORPORATE GOVERNANCE REPORT

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

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

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

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

- **The 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) 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.
2. 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.
3. Organizing free recreational parties and summer camps at Arabella complex, located in Al-Bida region during the weekend for children.
4. Holding a Ramadan exhibition in Kuwait market. The idea of the exhibition is to encourage the owners of small projects that are interested in the Kuwaiti product. The proceeds are used to support the "Basta" project, which is a non-profit organization that aims to positively influence the Kuwaiti society to take advantage of used and stored property in the home to provide the basic needs of the needy and reduce the phenomenon of extravagance in society.

# ANNUAL AUDIT COMMITTEE REPORT ORDINARY GENERAL ASSEMBLY

8 March, 2020 - Kuwait

## Committee Head Message

Esteemed Shareholders,

Greetings,

On behalf of myself and the committee members, I am pleased to present to you the report of the Audit Committee for the financial year ended on 31/12/2019 including the main duties and accomplishments of the Committee during the period.

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

Yours Sincerely,

**Marzouq Jassim Al-Bahar**
**Head of the Committee**

# ANNUAL AUDIT COMMITTEE REPORT
# ORDINARY GENERAL ASSEMBLY

**Introduction**

The Company is committed to the instructions of Capital Markets Authority, and therefore formed an audit committee (the “Committee”) derived from the Board of Directors (the “Board”) of Kuwait Real Estate Company (the “Company”). The charter of the committee approved by the Board sets forth the method and standards of choosing members of the Committee, term of the Committee, tasks, responsibilities and authorities of this Committee, and rules thereof. The Committee is fully independent from the Executive Management of the Company.

Based on Modular Fifteen (Corporate Governance) of the Executive Bylaws issued by the Capital Markets Authority in the State of Kuwait (Article No. 9 - 9 Item No. 4 which states that the agenda of the General Assembly must read the report of the audit committee); this report was made to be read in the meeting of the General Assembly of the Company to be held in the Second Quarter of 2020.

The Company established the internal audit activity which is fully technically independent through direct reporting to the audit committee.
All members of the committee have academic qualifications and/or practical experience in the field of accounting and finance.

The secretary of committee records all the minutes of meetings of the committee stating the place, date, and the beginning and end hour of the meeting. The minutes of the meetings are givens serial numbers according to the year during which they were held, then they are recorded and maintained in a way to make them easily accessible. And based on the Committee’s keenness to provide all the requited information and data in an accurate and timely manner for all members of the committee and/ or Board, the updated information and data that might be needed by any member are provided to the secretary of the committee.

Opinion of the Committee regarding the internal audit systems applied in the company

The committee believes that the company has appropriate and satisfactory internal control and audit systems that cover all activities of the company, and maintain the financial integrity, data accuracy, and business efficiency of the company in all different aspects. The organizational level of the company takes into consideration the following:

1. Appropriate determination of the powers and responsibilities.
2. Double examination and control, double signature of all the financial and accounting operations in a manner that does not conflict with the authorities approved by the Board.
3. The principle of segregation of incompatible duties in all operations of the company which are conducted through the manual and automatic systems used in the Company. The main goals of this principle are:
   a. To reduce the possibility of hiding any operation implemented.
   b. To reduce the ability of one person to control all the stags of an operation.
   c. To limit the conflict of interests.
   d. To reduce the risks of fraud.

The Committee believes that the Company depends on a group of the developed information systems, and contributes effectively in the internal audit, provides accurate and transparent information, and the company applies an authorities matrix which determines the lines access and dealing with the information systems. In addition, limits were placed for the authorities by the Board of Directors and Executive Management to reflect the authorities of making decisions, and then determining authorized signatories of the Company. The Company guarantees that the authorities granted to its employees are in line with their responsibilities at an acceptable level of authorization and segregation of duties. The authorities and responsibilities of the employees are subject to review according to the requirements of the work environment and any changes to the organization structure of the Company.

The procedures of internal audit include operational, administrative and accounting audit and they are applied constantly. The activities and performance of the Company are discussed through periodic meetings of the senior administration. All concerned parties in the departments of the company are informed of all the decisions. All the documents related to the internal audit system are maintained and classified to be used in the training of employees, examination and testing procedures which aim at confirming the efficiency and effectiveness of the system. The departments maintain their files and records in a safe place and grants the power of access only to the competent persons who are authorized to access the same according to the instructions of the department.

# ANNUAL AUDIT COMMITTEE REPORT ORDINARY GENERAL ASSEMBLY

**Accomplishments of the Committee:**

The Committee established the commitment culture inside the company through its pursuit to ensure the integrity and safety of financial reports of the Company, as well as ensuring the efficiency and effectiveness of the internal control systems applied in the Company.

Most significant achievements of the Committee during 2019:

1. Preparing the audit committee report to be read to the general assembly.
2. Reviewing the periodic and annual financial statements and recommending the Board of Directors to approve the same.
3. Meeting with the independent auditor, discussing the financial reports and statements, ensuring that there are no interventions or obstacles that the auditor faced during auditing the consolidated financial statements of the Company and its subsidiaries by the Executive Management or Board of Directors.
4. Following up the performance of the independent auditor, evaluating its independence and recommending his re-appointment to the Board of Directors.
5. Reviewing and discussing the ICR applied at the company issued by an independent audit office, and following up with addressing the remarks and implementing the recommendations given regarding the previous reports.
6. Reviewing and discussing the Internal Audit Department performance evaluation and assessment during the past three years issued by an independent audit office other that the office which evaluated the ICR.
7. Preparing the annual audit committee report regarding the extent of efficiency of the internal control systems applied at the company which includes the opinion of the Committee in this regard, and presenting this report to the Board of Directors.
8. Approving the annual internal audit plan.
9. Reviewing and discussing the internal audit reports (including the evaluation report of internal audit systems applied at the Company), and following up on addressing the remarks and implementing the recommendations listed in these reports.

The Committee reported to the Board of Directors regarding its activities, the results of its work as well as any transparent decisions. The Board of Directors follows up the work of the Committee in a periodic manner to ensure the implementation of its duties. The Committee is responsible for its actions before the Board of Directors. The Executive Management at the Company provided all the information and data needed by the Committee in a full, accurate and timely manner for all members of the Committee which enabled the Committee to perform its duties and tasks in an effective and efficient manner.

And as a commitment to the highest standards of transparency, the Company placed a mechanism that allows in the case of conflict between the recommendations of the audit committee and decisions of the Board, especially when the Board refuses to follow the recommendations of the Committee regarding the external auditors/ internal auditor, whereas the Board is committed in the case of any conflict to ensure that its governance report clearly details such recommendations and the reason(s) behind the Board's decision not to follow them.

During 2019, there was no conflict between the recommendations of the Audit Committee and Resolutions of the Board of Directors.

Yotel
San Francisco - USA

Al Riggae Block-A
Kuwait

# MARKET OVERVIEW


5300-5350 Hellyer
San Jose, CA - USA

## 650 ALMANOR (APPLE INC.)

In the 2nd quarter of 2019, AQARAT divested of 650 Almanor Ave, a 54,215 sf research & development ("R&D") office building located in Sunnyvale, California, 100% NNN leased through December 2022 to Apple (NASDAQ: AAPL, S&P: AA+). Strategically positioned in Silicon Valley's premier submarket, Peery Park, the investment thesis at the time of acquisition in 2016 was the following:

- *Long-term, Stable, Cash Yield Driven by Long-Term Lease:* The Property is 100% leased to Apple, the largest publicly traded company in the world at the time. Approximately 72 months remain on the current lease with an in-place base rental rate of $35.84 per square foot on a triple-net basis with 3.0% escalations per annum.

- *Institutional Quality Asset with Extensive Renovations:* The building had been completely renovated on both the exterior and the interior.
- Strategic Location in Sunnyvale's Premier Submarket, Peery Park: The Peery Park submarket represented one of Silicon Valley's prime commercial real estate locations.

- *Below Market In-Place Rent and Historically Low Vacancy Rate:* The in-place rent is approximately 20% below the market rent for newly renovated buildings at the time. Robust tenant demand, the Apple/Google market take over in the Northern Silicon Valley submarkets pushed vacancy down to record setting levels. Both the overall Sunnyvale and Peery Park office/R&D vacancy rates stand at 3.5% as of the end of the 2015.

- *Transit-Oriented Location with Nearby Amenities:* The Property is located less than one half of a mile from Highway 101 and offers immediate access to the Central Expressway, with a direct connection to Highways 237 and 85 and the Lawrence Expressway.

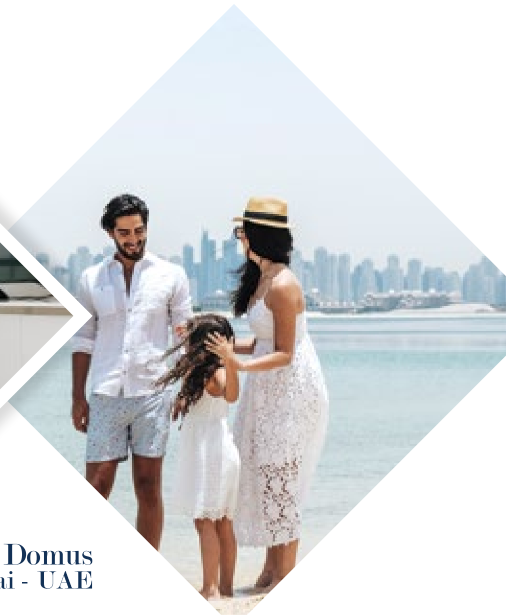
Upon exit in the 2nd quarter of 2019,the Property delivered a compelling quarterly 9.0% cash on cash return and a 22.0% IRR upon exit over a holding period of less than 2.5 years. The Property was acquired at a 6.3% cap in December 2016 and sold at a 5.3% cap in May 2019.

## 5300-5350 HELLYER AVENUE (COBHAM PLC)

In September, with the proceeds from the sale of 650 Almanor, AQARAT acquired 5300-5350 Hellyer Ave ("Property"), a 160,000 sf Class A building located in San Jose, California, 100% NNN leased to a wholly-owned subsidiary of Cobham plc (LSE:COB), a world leading aerospace and defense technology company, with its lease running for 10 years through 2029 with 2.5% annual rent increases. The Property presents an excellent opportunity to hold a stabilized asset yielding attractive 8.5% cash yield, while also achieving an IRR of 14.0% over a 5-year hold in one of the most desirable markets in the US.

- *Attractive Silicon Valley Location with Tenants In-Migration:* As one of the most innovative regions in the world, Silicon Valley is the world's undisputed high-tech capital, with the highest GDP per capita in the US and the 3rd largest in the world. It is home to the headquarters of the giants of the global tech sector (Apple, Google), 39 Fortune 1000 companies and thousands of startup companies. The development of Silicon Valley

The 8 -
House of Originals
Palm Jumeirah
Dubai - UAE



Domus
Dubai - UAE

benefits from immediate access to one of the most educated workforces in the nation and proximity to world-class universities such as Stanford and UC Berkeley. With 225,300 high-tech jobs, Silicon Valley has the highest concentration of high-tech workers of any metro area in the country. The Property is strategically located in South San Jose, one of the top performing submarkets with numerous companies migrating to it or expanding to it from northern Silicon Valley submarkets or outside of the area. The submarket has witnessed over 1m sf in tenant relocations or expansions over the past few years.

- *Long-Term Lease to World Leading Credit Tenant:* Cobham has fully occupied the Property since its completion in 2000 and Cobham recently extended its lease for 10 years with another two 5-year renewal options, demonstrating its long term commitment to the Property. Cobham is a British manufacturing company listed on the London Stock Exchange and is a constituent of the FTSE 250 Index. It is the 3rd largest defense company in the UK providing a range of technologies and services to commercial, defense, aerospace, space, and security markets internationally. It reported £1.86b in revenue and £62.6m of free cash flow as of FY 2018. Cobham's advanced electronic solutions division, headquartered at the Property, specializes in radar, communications and electronic warfare systems, and is the world leader in advanced tactical military vehicle intercom systems. As of FY 2018, this segment reported revenue of £595m, accounting for 32% of Cobham's total revenue. The majority of these revenues were generated from contracts with US defense agencies.
- Class A Office Building with Exceptional Accessibility: The Property is 2 miles away from the intersection of Highway 101 and Highway 85, offering direct access to abundant nearby amenities including the new Village Oaks shopping center of over 320,000 sf. It enjoys proximity to mass transit including Caltrain and VTA stations. There are several new residential developments and executive housing in nearby neighborhoods.

**THE 8- HOUSE OF ORIGINALS - PALM JUMEIRAH**

In the 4th quarter of the year, AQARAT acquired ***The 8- House of Originals - Palm Jumeirah.*** The hotel is a part of The 8 – a luxurious mixed-use development that comprises 190 residential apartments and a 162-key House of Originals hotel-apartment complex and is due to open in the 2nd quarter of 2020.

Inspired by chic "Miami style" living, The 8's design is sophisticated and clean with a contemporary touch. Lightweight architecture and spaciousness are carried throughout the design, from the exterior focus on wide-open balconies to the airy and sleek interior where space is adorned with modern finishes. More art gallery than apartment, The 8 will be one of the Palm Jumeirah's most distinguished addresses.

Featuring a variety of types covering two-bedroom and three-bedroom apartments as well as signature townhouse and penthouse units, each floor plan has been meticulously designed, from the private gardens, entertainment decks and pools in the townhouses to the private lifts of the duplex penthouses.

*The 8- House of Originals - Palm Jumeirah* is expected to open in Q2 2020. It is spread across three wings. The Hotel apartments are of 1 to 4 bedrooms with duplex penthouses on levels 6 and 7. Other amenities include F&B outlets, a beach restaurant and club, a rooftop lounge and bar, a tennis court, and adult/children's swimming pools.

**DOMUS MANAGED HOUSING:**

Also in 2019, AQARAT embarked on a new line of business with the intent of creating a platform to provide socially responsible, purpose built, staff housing accommodation throughout the region. The company's first project consists of what will ultimately be five residential towers in Dubai Production City housing over 5,000 staff. The first phase of the project, consisting of the first two towers and housing over 2,000 staff members began construction in the thirst quarter of 2019.

Yotel
San Francisco - USA

The purpose of the project is to house staff in a state-of-the-art, staff housing accommodation located within close proximity to several of Dubai's major tourism hubs. The intent is to court a variety of hospitality companies with staff housing needs located within a 25 minute radius of the site.

The first phase of the project will eventually consist of over 392,000 square feet of built up area of which 233,000 square feet of rentable area, eventually housing over 2,000 hospitality staff of varying employment levels.

The project seeks to create a sense of community where hospitality professionals within several disciplines from various hotel flags and other hospitality related companies.

The cluster of dwellings within each unit type will each en-suite restrooms, while utilizing shared space within the common area for kitchen facilities and recreational areas. The first phase of the project is to consist of two buildings housing 1,000 employees each.

The unit mix will be a range of 2, 3, 4 and 5 bedroom units, housing a minimum of two employees per unit up to 10 employees per unit depending on desired tenant usage and occupancy per key. The units are designed in such a manner that each individual dwelling within the units allows for maximum comfort and efficiency, including a dedicated en-suite restroom within each individual room

## YOTEL SAN FRANCISCO

AQARAT officially opened YOTEL San Francisco in February, the innovative global hospitality brand's first West Coast hotel is located in the heart of San Francisco's main thoroughfare, Market Street. Located at 1095 Market Street, YOTEL San Francisco is situated in the historic Grant Building, restored to creatively leverage its unique features throughout the property. YOTEL San Francisco is the brand's first adaptive re-use office conversion project. Constructed in 1905, the Grant Building is one of three that survived both the 1906 and 1989 earthquakes in San Francisco. Blending the old and new, YOTEL incorporated

Yotel
San Francisco - USA

tech-forward amenities such as self-check-in kiosks, whilst also maintaining the building's historic charm, incorporating many original features into the hotel design, from exposed brick walls to arched windows and its original marble staircase.

The property has 203 rooms (or cabins as they are known at YOTEL), each with distinct floor plans to accommodate the building's original layout and frame. YOTEL's first-ever Sky Cabins make up almost half of the San Francisco property, featuring mezzanine-level sleeping accommodations accessed by a staircase and perfect for the solo traveler. Cabins are equipped with YOTEL's signature features, including the space-saving adjustable SmartBed™ in Premium Cabins, luxury amenities from Urban Skincare, rejuvenating rain showers and heated towel racks, multiple power and USB charging ports, free super-fast WiFi, HD SMART TVs and more.


400
280
200
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june
july
aug.


# FINANCIAL STATEMENTS

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# Independent auditor's report

To the shareholders of
Kuwait Real Estate Company – KPSC
Kuwait

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Kuwait Real Estate Company - KPSC (the "Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 value of investment properties are significant to the Group's consolidated financial statements and are carried at fair value. Management determines the fair value of its investment properties on a periodic basis using external appraisers to support the valuation.

Investment properties are valued using mark to market approach which is based on the latest sale prices of properties within similar areas for certain investment properties, and income capitalization approach which is based on estimates and assumptions such as rental values, occupancy rates, discount rates, financial stability of tenants, market knowledge and historical transactions for certain other properties. Also, the disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter. The Group's disclosures about its investment properties are included in Notes 12 and 34.3 to the consolidated financial statements.

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

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

*Valuation of financial assets at FVTPL and FVTOCI*
The Group's financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) include significant unquoted investments. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models. Therefore, there is significant measurement uncertainty involved in valuations. As a result, the valuations of these instruments was significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its financial assets at FVTPL and FVTOCI are included in Notes 14, 19 and 34.2 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 2019 Annual Report**
Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**
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 2019 that might have had a material effect on the business or financial position of the Parent Company.

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

Kuwait
12 April 2020

**Kuwait Real Estate Company – KPSC and Subsidiaries**
**Consolidated Financial Statements**
**31 December 2019**

# Consolidated statement of profit or loss

| | Notes | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2018 KD |
|---|---|---|---|
| **Income** | | | |
| Real estate rental income | | **23,735,949** | 17,463,393 |
| Real estate operating expenses | | **(3,020,742)** | (7,288,690) |
| Net rental income | | **20,715,207** | 10,174,703 |
| Change in fair value of investment properties | 12 | **(6,284,697)** | 347,770 |
| Loss on sale of trading properties | | **-** | (246,395) |
| Share of results of associates | 15 | **573,788** | 304,148 |
| Change in fair value of financial assets at fair value through profit or loss | | **(509,731)** | 1,847,377 |
| Dividend income | 10 | **334,465** | 372,370 |
| Foreign exchange loss | | **(25,685)** | (37,013) |
| Reversal of provision no longer required | | **-** | 903,744 |
| Gain on bargain purchase of a subsidiary | 7.5 | **3,579,018** | - |
| Other income | | **823,818** | 844,846 |
| | | **19,206,183** | 14,511,550 |
| **Expenses and other charges** | | | |
| General and administrative expenses | | **(1,904,782)** | (1,437,717) |
| Finance costs | 8 | **(8,071,661)** | (5,396,267) |
| Provision for doubtful debts | 17 | **(400,000)** | (604,133) |
| Provision for tax claims of foreign subsidiary | 9 | **(606,000)** | - |
| Provision for trading properties | | **(633,623)** | - |
| | | **(11,616,066)** | (7,438,117) |
| **Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration** | | **7,590,117** | 7,073,433 |
| Provision for KFAS | | **(33,196)** | (31,800) |
| Provision for NLST | | **(197,782)** | (176,665) |
| Provision for Zakat | | **(98,808)** | (77,518) |
| Board of directors' remuneration | | **(40,000)** | (40,000) |
| **Profit for the year** | | **7,220,331** | 6,747,450 |
| **Attributable to:** | | | |
| Owners of the Parent Company | | **7,045,605** | 6,747,450 |
| Non-controlling interest | | **174,726** | - |
| Profit for the year | | **7,220,331** | 6,747,450 |
| **Basic and diluted earnings per share attributable to Owners of the Parent Company (fils)** | 11 | **8.26** | 7.54 |

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

# Consolidated statement of profit or loss and other comprehensive income

| | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2018 KD |
|---|---|---|
| **Profit for the year** | **7,220,331** | 6,747,450 |
| **Other comprehensive loss:** | | |
| *Items that will not be reclassified subsequently to consolidated statement of profit or loss* | | |
| Financial assets at fair value through other comprehensive income: | | |
| - Net change in fair value arising during the year | **(8,503,054)** | (6,930,012) |
| *Items that may be reclassified subsequently to consolidated statement of profit or loss* | | |
| Exchange differences arising on translation of foreign operations | **89,454** | 15,575 |
| Total other comprehensive loss | **(8,413,600)** | (6,914,437) |
| **Total comprehensive loss for the year** | **(1,193,269)** | (166,987) |
| **Attributable to :** | | |
| **Owners of the Parent Company** | **(1,367,995)** | (166,987) |
| **Non-controlling interests** | **174,726** | - |
| **Total comprehensive loss for the year** | **(1,193,269)** | (166,987) |

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

**Kuwait Real Estate Company – KPSC and Subsidiaries**
**Consolidated Financial Statements**
**31 December 2019**

# Consolidated statement of financial position

| | Notes | **31 Dec 2019 KD** | 31 Dec 2018 KD |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | | **207,386** | 1,986,775 |
| Investment properties | 12 | **223,906,226** | 174,739,425 |
| Properties under development | 13 | **7,450,699** | - |
| Capital work in progress | | **519,126** | 221,864 |
| Financial assets at fair value through other comprehensive income | 14 | **27,175,068** | 31,963,886 |
| Investment in associates | 15 | **7,967,807** | 5,919,095 |
| Due from related parties | 30 | **359,469** | - |
| **Total non-current assets** | | **267,585,781** | 214,831,045 |
| **Current assets** | | | |
| Trading properties | 16 | **8,624,272** | 9,258,085 |
| Due from related parties | 30 | **6,593,998** | 2,019,328 |
| Accounts receivable and other assets | 17 | **3,972,076** | 3,412,677 |
| Advance payments for purchase of investments | 18 | **11,347,662** | 14,037,524 |
| Financial assets at fair value through profit or loss | 19 | **25,501,033** | 24,374,499 |
| Cash and cash equivalents | 20 | **3,298,312** | 2,961,865 |
| **Total current assets** | | **59,337,353** | 56,063,978 |
| **Total Assets** | | **326,923,134** | 270,895,023 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 21 | **94,736,506** | 90,671,294 |
| Share premium | 21 | **3,425,191** | 3,425,191 |
| Treasury shares | 22 | **(6,262,577)** | (943,694) |
| Other components of equity | 23 | **15,559,006** | 21,735,909 |
| Retained earnings | | **20,476,781** | 17,419,769 |
| **Equity attributable to owners of the Parent Company** | | **127,934,907** | 132,308,469 |
| Non-controlling interests | | **3,073,895** | - |
| **Total equity** | | **131,008,802** | 132,308,469 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 25 | **133,361,217** | 111,571,399 |
| Lease liabilities | 26 | **30,295,091** | - |
| Provision for employees' end of service benefits | | **972,051** | 785,897 |
| **Total non-current liabilities** | | **164,628,359** | 112,357,296 |
| **Current liabilities** | | | |
| Due to related parties | 30 | **1,010,928** | 696,671 |
| Borrowings | 25 | **5,768,622** | 6,892,877 |
| Lease liabilities | 26 | **6,959,568** | - |
| Lease contracts liability | | **-** | 3,207,996 |
| Accounts payable and other liabilities | 27 | **13,203,062** | 11,032,321 |
| Due to bank | 28 | **4,343,793** | 4,399,393 |
| **Total current liabilities** | | **31,285,973** | 26,229,258 |
| **Total Liabilities** | | **195,914,332** | 138,586,554 |
| **Total Equity and Liabilities** | | **326,923,134** | 270,895,023 |

Talal Jassem Al-Bahar
**Vice Chairman & CEO**

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

# Consolidated statement of changes in equity

| | Share capital KD | Share premium KD | Treasury shares KD | Other components of equity (Note 23) reserve KD | Retained earnings KD | Sub total KD | Non-controlling interests KD | Total KD |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | 90,671,294 | 3,425,191 | (943,694) | 21,735,909 | 17,419,769 | 132,308,469 | - | 132,308,469 |
| Adjustment arising on adoption of IFRS 16 (note 4.1) | - | - | - | - | 2,232,950 | 2,232,950 | - | 2,232,950 |
| Balance as at 1 January 2019 (restated) | 90,671,294 | 3,425,191 | (943,694) | 21,735,909 | 19,652,719 | 134,541,419 | - | 134,541,419 |
| Purchase of treasury shares | - | - | (10,313,587) | - | - | (10,313,587) | - | (10,313,587) |
| Sale of treasury shares | - | - | 2,302,364 | 341,703 | - | 2,644,067 | - | 2,644,067 |
| Bonus shares distributions (note 31) | - | - | 2,692,340 | 470,963 | (3,163,303) | - | - | - |
| Non-controlling interests arising on acquisition of subsidiary (note 7.5) | - | - | - | - | - | - | 2,899,169 | 2,899,169 |
| Shares issued to acquire a subsidiary (notes 7.5 & 21) | 4,065,212 | - | - | - | (1,634,209) | 2,431,003 | - | 2,431,003 |
| Transactions with the owners | 4,065,212 | - | (5,318,883) | 812,666 | (4,797,512) | (5,238,517) | 2,899,169 | (2,339,348) |
| Profit for the year | - | - | - | - | 7,045,605 | 7,045,605 | 174,726 | 7,220,331 |
| Other comprehensive loss for the year | - | - | - | (8,413,600) | - | (8,413,600) | - | (8,413,600) |
| Total comprehensive (loss)/income for the year | - | - | - | (8,413,600) | 7,045,605 | (1,367,995) | 174,726 | (1,193,269) |
| Realised gain on disposal of financial assets at FVTOCI | - | - | - | (59,047) | 59,047 | - | - | - |
| Transferred to reserves | - | - | - | 1,483,078 | (1,483,078) | - | - | - |
| **Balance at 31 December 2019** | 94,736,506 | 3,425,191 | (6,262,577) | 15,559,006 | 20,476,781 | 127,934,907 | 3,073,895 | 131,008,802 |

*The notes set out on pages 55 to 106 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 | Other components of equity (Note 23) reserve KD | Retained earnings KD | Sub total KD | Non-controlling interests KD | Total KD |
| **Balance at 1 January 2018** | 90,671,294 | 3,425,191 | (208,149) | 26,476,064 | 12,953,860 | 133,318,260 | - | 133,318,260 |
| Adjustment arising on adoption of IFRS 9 | - | - | - | 871,831 | (979,090) | (107,259) | - | (107,259) |
| Balance as at 1 January 2018 (restated) | 90,671,294 | 3,425,191 | (208,149) | 27,347,895 | 11,974,770 | 133,211,001 | - | 133,211,001 |
| Purchase of treasury shares | - | - | (735,545) | - | - | (735,545) | - | (735,545) |
| Transactions with the owners | - | - | (735,545) | - | - | (735,545) | - | (735,545) |
| Profit for the year | - | - | - | - | 6,747,450 | 6,747,450 | - | 6,747,450 |
| Other comprehensive loss for the year | - | - | - | (6,914,437) | - | (6,914,437) | - | (6,914,437) |
| Total comprehensive (loss)/income for the year | - | - | - | (6,914,437) | 6,747,450 | (166,987) | - | (166,987) |
| Realised gain on disposal of financial assets at FVTOCI | - | - | - | (112,235) | 112,235 | - | - | - |
| Transferred to reserves | - | - | - | 1,414,686 | (1,414,686) | - | - | - |
| **Balance at 31 December 2018** | 90,671,294 | 3,425,191 | (943,694) | 21,735,909 | 17,419,769 | 132,308,469 | - | 132,308,469 |

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

# Consolidated statement of cash flows

| | Notes | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2019 KD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit for the year** | | **7,220,331** | 6,747,450 |
| **Adjustments:** | | | |
| Depreciation | | **51,829** | 351,842 |
| Finance costs | | **8,071,661** | 5,396,267 |
| Change in fair value of investment properties | | **6,284,697** | (347,770) |
| Provision for trading properties | 12 | **633,623** | - |
| Loss on sale of trading properties | | **-** | 246,395 |
| Share of results of associates | | **(573,788)** | (304,148) |
| Gain on bargain purchase of subsidiary | 15 | **(3,579,018)** | - |
| Change in fair value of financial assets at fair value through profit or loss | 7 | **509,731** | (1,847,377) |
| Provision for doubtful debts | | **400,000** | 604,133 |
| Provision for tax claims of foreign subsidiary | 17 | **606,000** | - |
| Dividend income | 9 | **(334,465)** | (372,370) |
| Reversal of provision no longer required | 10 | **-** | (903,744) |
| Provision for employees' end of service benefits | | **85,306** | 182,450 |
| | | **19,375,907** | 9,753,128 |
| **Changes in operating assets and liabilities:** | | | |
| Due from related parties | | **(4,934,139)** | (715,204) |
| Accounts receivable and other assets | | **827,436** | (767,916) |
| Advance payments for purchase of investments | | **2,689,862** | (14,037,524) |
| Accounts payable and other liabilities | | **(329,147)** | (11,114) |
| Due to related parties | | **314,257** | (10,995) |
| Lease contracts liability | | **-** | (2,066,292) |
| Employees' end of service benefits paid | | **(74,535)** | (105,850) |
| **Net cash from/(used in) operating activities** | | **17,869,641** | (7,961,767) |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | **(27,506)** | (189,805) |
| Additions to capital work in progress | | **(3,293,910)** | 235,306 |
| Additions to properties under development | | **(7,450,699)** | - |
| Purchase of investment properties | 13 | **(2,740,795)** | (10,113,489) |
| Purchase of financial assets at fair value through profit or loss | 12 | **(1,437,416)** | (450,446) |
| Purchase of financial assets at fair value through other comprehensive income | | **(4,532,126)** | (5,617,147) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | | **720,549** | 910,985 |
| Dividend received from associates | 15 | **125,181** | 471,165 |
| Investments in associates | 15 | **(1,543,967)** | (734,926) |
| Restricted bank balances | 20 | **(151,086)** | 98,536 |
| Increase in term deposits | | **(1,170,189)** | (174,418) |
| Dividend income received | | **334,465** | 372,370 |
| Bank balances arising on acquisition of a subsidiary | | **3,046,106** | - |
| **Net cash used in investing activities** | | **(18,121,393)** | (15,191,869) |

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

**Kuwait Real Estate Company – KPSC and Subsidiaries**
**Consolidated Financial Statements**
**31 December 2019**

# Consolidated statement of cash flows (continued)

| | Notes | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Net change in borrowings | 25 | **20,665,563** | 25,926,569 |
| Finance costs paid | | **(7,737,218)** | (6,164,863) |
| Lease liabilities paid | | **(8,232,000)** | - |
| Net movement in treasury shares | | **(5,318,883)** | (735,545) |
| **Net cash (used in)/from financing activities** | | **(622,538)** | 19,026,161 |
| Net decrease in cash and cash equivalents | | **(874,290)** | (4,127,475) |
| Foreign currency adjustments | | **(54,938)** | (339,112) |
| Cash and cash equivalents at the beginning of the year | 20 | **(1,847,972)** | 2,618,615 |
| **Cash and cash equivalents at the end of the year** | 20 | **(2,777,200)** | (1,847,972) |
| | | | |
| **Non-cash transactions:** | | | |
| Acquisition of subsidiary | | | |
| - Issue of share capital | | **4,065,212** | - |
| - Non-controlling interests | | **2,899,169** | - |
| - Proceeds from disposal of financial assets at FVTOCI | | **350,499** | - |
| - Increase in net assets excluding bank balances | | **(6,213,760)** | - |
| - Investment in associates | | **-** | 1,728,185 |
| - Financial assets at FVTOCI | | **-** | 1,819,801 |
| Investment properties | | **(26,144,198)** | - |
| Lease liabilities | | **26,144,198** | - |

*The notes set out on pages 55 to 106 form an integral part of these consolidated financial statements.*

# 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 principle activities of the Parent Company are as follows:

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

# Notes to the consolidated financial statements

## 1 Incorporation and activities of the Parent Company (continued)

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

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

These consolidated financial statements for the year ended 31 December 2019 were authorised for issue by the Parent Company's board of directors on 12 April 2020 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 "statement of profit or loss" and "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

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2019 which have been adopted by the Group. Information on these new standards is presented below:

| Standard or Interpretation | Effective for annual periods beginning |
|---|---|
| IFRS 16 Leases | 1 January 2019 |
| IAS 28 – Amendments | 1 January 2019 |
| Annual Improvements to IFRSs 2015-2017 Cycle | 1 January 2019 |

## 4 Changes in accounting policies (continued)

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

***IFRS 16 Leases***

IFRS 16 replaced IAS 17 and three related Interpretations. IFRS 16 introduced new and amended requirements with respect to accounting for leases. As a result, lessee accounting is now significantly different and removes distinction between finance and operating leases. It now requires recognition of a right-of-use asset and lease liability at commencement date for all leases, except for short term leases and low value leases. However, the accounting by lessor has largely remained unchanged. The new accounting policy is described below.

*Transition on date of initial application:*

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in shareholders' equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases, if any, previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.15%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

*Impact on initial application:*

The impact on the Group as a lessee is described below:

| | **31 Dec. 2018** | **Adjustments** | **1 Jan. 2019** |
|---|---|---|---|
| | **KD** | **KD** | **KD** |
| Property and equipment | 1,775,046 | (1,775,046) | - |
| Investment properties | - | 26,944,198 | 26,944,198 |
| Lease liabilities | - | 26,144,198 | 26,144,198 |
| Lease contracts liability | 3,207,996 | (3,207,996) | - |
| Retained earnings | 17,419,769 | 2,232,950 | 19,652,719 |

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# Notes to the consolidated financial statements

**4 Changes in accounting policies (continued)**

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

***IFRS 16 Leases (continued)***

*Impact on initial application: (continued)*

As a result of implementation of IFRS 16, the Group has determined that its properties leased from the Ministry of Finance-State Properties department meet the scope of the standard and the Group is an intermediate lessor.

Further, these leased properties meet the definition of investment property in IAS 40. Accordingly, these properties have been recognised as investment properties and are measured at fair value in line with the accounting policy choice of the Group for its investment properties. Consequent to implementation of the standard, the Group's retained earnings as of 1 January 2019 has been adjusted with a gain of KD2,232,950. The gain represents recognition of change in fair value of the right-of-use of assets of KD800,000, reversal of the accrual of lease contracts liabilities and write off of development costs of the leased properties.

The change in fair value of a right of use of an asset, classified as an investment property, and interest cost of Lease liabilities for the current year amounted to KD6,744,285 and KD1,434,172 respectively are recognised in the consolidated statement of profit or loss.

There was no impact on adoption of IFRS 16 on the Group as a lessor. The Group continues to classify and accounts for its leases as either finance leases or operating leases. However, the standard has changed and expanded the disclosures required relating management of risks arising from the Group's residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head-lease and sub-lease as two separate contracts.

As a result of this change, the Group reassessed certain sub-lease agreements.

The new accounting policy for leases is detailed in Note 5.9.

***IAS 28 – Amendments***

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These include long-term interests that, in substance, form part of the Group's net investment in an associate or joint venture.

The adoption of this amendment did not result in any significant impact on the Group's consolidated financial statements.

***Annual Improvements to IFRSs 2015-2017 Cycle***

Amendments to IFRS 3 and IFRS 11 - Clarify that when an entity obtains control of a business that is a joint operation it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings

The adoption of these amendments did not result in any significant impact on the Group's consolidated financial statements.

# Notes to the consolidated financial statements

**4 Changes in accounting policies (continued)**

**4.2 IASB Standards issued but not yet effective**

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

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

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

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

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

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

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.

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# Notes to the consolidated financial statements

## 4 Changes in accounting policies (continued)

### 4.2 IASB Standards issued but not yet effective

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

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

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

***IAS 1 and IAS 8 – Amendments***
The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

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

## 5 Significant accounting policies

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

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

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

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

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**5.1 Basis of consolidation (continued)**

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.

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

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# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**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 Kuwait Foundation for the Advancement of Sciences (KFAS)***

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

***5.8.2 National Labour Supporting tax***

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

***5.8.3 Zakat***

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

***5.8.4 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.

**5.9 Leased assets**

**Accounting policy applicable from 1 January 2019**

*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'.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**5.9 Leased assets (continued)**

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.

*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.

*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.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**5.9 Leased assets (continued)**

**Accounting policy applicable before 1 January 2019**

*The Group as a lessee*

Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Notes to the consolidated financial statements (continued)

**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.

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 Significant accounting policies (continued)

### 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.

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 Significant accounting policies (continued)**

**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.

***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.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

***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.

- **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.

**5 Significant accounting policies (continued)**

**5.17 Financial instruments (continued)**

***5.17.3 Subsequent measurement of financial assets (continued)***

- **Equity investments at FVTOCI (continued)**

A financial asset is held for trading if:

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

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

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

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

- **Financial assets at FVTPL**

Financial assets that do not meet the criteria for measurement at amortised cost or FVTOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains investments in equity shares.
Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

***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.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**5.17 Financial instruments (continued)**

***5.17.4 Impairment of financial assets (continued)***

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.

***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.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**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. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 34.2.

**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 articles of incorporation.

Other components of equity include the following:

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

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

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

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**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.

**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.

**5.24 Treasury shares (continued)**

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

**5.25 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.

# Notes to the consolidated financial statements

**5 Significant accounting policies (continued)**

**5.26 Foreign currency translation (continued)**

***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.

**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 (please see accounting policy for financial instruments sections in note 5.17). 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.

# Notes to the consolidated financial statements

**6 Significant management judgements and estimation uncertainty (continued)**

**6.1 Significant management judgments (continued)**

***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)

***6.1.4 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.

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# Notes to the consolidated financial statements

**6 Significant management judgements and estimation uncertainty (continued)**

**6.2 Estimates uncertainty (continued)**

***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.

***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

**7 Subsidiary companies**

| Name of subsidiary | Country of incorporation | Ownership Percentage 31 Dec. 2018 | 31 Dec. 2017 | Principle activity |
|---|---|---|---|---|
| *Directly owned subsidiaries:* | | | | |
| Habara Pearl Farm Company – American Shareholding Co. (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 Debt Company Limited (7.1) | Cayman Islands | **100%** | 100% | Investment |
| KREC Equity Company Limited (7.1) | Cayman Islands | **100%** | 100% | 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 & 7.6) | Lebanon | **100%** | 100% | Real estate |
| Al-Fereej International Real Estate Co. – WLL (7.2) | Kuwait | **99%** | 99% | Real estate |
| Al Mottahida General Investment – LLC (7.3 & 7.2) | UAE | **99%** | - | Real estate |
| Al Durrar General Investment – LLC (7.3 & 7.2) | UAE | **99%** | - | Real estate |
| Delano Investments – FZE (7.4) | UAE | **100%** | - | Investment |
| Delano Managing Office – FZE (7.4) | UAE | **100%** | - | Service |
| International Resorts Co. - KPSC (7.5) | Kuwait | **68.69%** | - | Real estate |
| *Fellow subsidiaries:* | | | | |
| Al-Aqdain United Advertisement Company - WLL. | Kuwait | **100%** | 100% | Advertising |
| Assjad Al-Kuwait General Trading and Contracting Co. -WLL | Kuwait | **99%** | 99% | General trading and contracting |
| Seven Seas Resorts Co. – SAL | Lebanon | **100%** | 100% | Real estate |
| International United Real Estate Group – SAL (7.7) | Lebanon | **100%** | 100% | Real estate |
| Lebanese International Travel and Tourism Co. – SAL (7.7) | Lebanon | **100%** | 100% | Real estate |

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 During the year, the Group established two new subsidiaries under the name of Al Mottahida General Investment – LLC and Al Durrar General Investment – LLC in UAE with a share capital of AED100,000 (equivalent to KD 8,300) each representing its 99% ownership interests in these subsidiaries.

7.4 During the year, the Group established two new subsidiaries under the name of Delano Investments – FZE and Delano Managing Office – FZE in UAE with a share capital of AED300,000 (equivalent to KD 24,900) each representing its 100% ownership interests in these subsidiaries.

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# Notes to the consolidated financial statements

**7 Subsidiary companies (continued)**

7.5 On 11 March 2019, the non-cash acquisition of International Resorts Co. – KPSC ("IRC") was completed. The Group acquired an additional 89,345,319 shares representing 57.84% interest in IRC by issuing of 40,652,120 new shares of the Parent Company with a fair value of KD2,430,997. Accordingly, the Group's ownership in IRC increased from 10.85% as of 31 December 2018 to 68.69%. Therefore, the Group reclassified the existing investment from financial assets at FVTOCI to investment in subsidiary since management believes that subsequent to acquisition of additional shares, the Group has the power to control the investee. The acquisition resulted in a provisional bargain purchase of KD3,579,018. The provisional fair value of the identifiable assets and liabilities as at the date of acquisition of the above investee are as follows:

| | KD |
|---|---|
| Total assets | 28,685,423 |
| Total liabilities | 19,425,557 |
| Net assets | 9,259,866 |
| Purchase consideration: | |
| Fair value of new shares | 2,431,003 |
| Fair value of the previously held equity interests in IRC | 350,493 |
| Total consideration | 2,781,496 |
| Less: share of net assets acquired | (6,360,514) |
| Bargain purchase | (3,579,018) |

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

Furthermore, the Annual General Assembly of IRC held on 21 March 2019 approved the IRC's board of directors' proposal for the optional withdrawal from Boursa Kuwait. The withdrawal was approved by the relevant authorities on 27 June 2019. On 9 January 2020, the subsidiary has withdrawn from Boursa Kuwait.

7.6 The Group's subsidiary IFA Hotels and Resorts Co. – S.A.L ("IFAHR Lebanon") is located in Lebanon which has recently been 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, subsequent to the year end 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.

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 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 2019.

# Notes to the consolidated financial statements

## 7 Subsidiary companies (continued)

Summarised financial information of IFAHR Lebanon as at and for the year ended 31 December 2019, before inter Group eliminations, is set out below:

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| Cash and bank balances | **288,664** | 447,990 |
| Trading properties | **8,624,272** | 9,258,085 |
| Other assets | **751,006** | 719,438 |
| Total assets | **9,663,942** | 10,425,513 |
| Bank facilities | **2,200,805** | 2,420,985 |
| Accounts payable and other liabilities | **2,484,976** | 1,542,555 |
| Total liabilities | **4,978,161** | 3,963,540 |

| | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|
| Income / (loss) | **3,971** | (243,842) |
| Loss for the year | **(1,572,861)** | (566,360) |

7.7 The Group's ownership in International United Real Estate Group – SAL and Lebanese International Travel and Tourism Co. – SAL is pledged against borrowings obtained from a foreign bank (note 25).

## 8 Finance costs

Summarised financial information of IFAHR Lebanon as at and for the year ended 31 December 2019, before inter Group eliminations, is set out below:

| | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|
| *On financial liabilities at amortised cost:* | | |
| Due to banks | **174,312** | 149,956 |
| Borrowings | **6,463,177** | 5,246,311 |
| Lease liabilities | **1,434,172** | - |
| | **8,071,661** | 5,396,267 |

# Notes to the consolidated financial statements

## 9 Provision for tax claims

As at the reporting date, there are a number of outstanding tax claims by the Ministry of Finance in the Republic of Lebanon against a subsidiary involving taxes for the years from 2012 to 2014. Although management of the subsidiary has filed objections against these tax claims with the relevant tax administration, the Group has recognised a provision of KD606,000 equivalent to USD2 million against liabilities that may arise from these disputed claims.

## 10 Net (loss)/gain on financial assets

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

| | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2018 KD |
|---|---|---|
| **At amortised cost:** | | |
| Cash and cash equivalents | **40,187** | 80,805 |
| Gain on financial assets at amortised cost | **40,187** | 80,805 |
| **Financial assets at fair value through profit or loss:** | | |
| Change in fair value | **(509,731)** | 1,847,377 |
| (Loss)/gain on financial assets at fair value through profit or loss | **(509,731)** | 1,847,377 |
| **Financial assets at fair value through other comprehensive income:** | | |
| Interest income | **125,071** | 129,396 |
| Dividend income | **334,465** | 372,370 |
| Gain recognised in consolidated statement of profit or loss | **459,536** | 501,766 |
| Change in fair value | **(8,503,054)** | (6,930,012) |
| Gain on sale | **59,047** | 112,235 |
| Loss recognised in equity | **(8,444,007)** | (6,817,777) |
| Loss on financial assets at fair value through other comprehensive income | **(7,984,471)** | (6,316,011) |
| Net loss on financial assets | **(8,454,015)** | (4,387,829) |

# Notes to the consolidated financial statements

## 11 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 shareholders of the Parent Company by weighted average number of shares outstanding during the year excluding treasury shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

| | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|
| Profit for the year attributable to Parent Company (KD) | **7,045,605** | 6,747,450 |
| Weighted average number of shares outstanding during the year (excluding treasury shares) (share) | **852,533,374** | 894,717,379 |
| Basic and diluted earnings per share (Fils) | **8.26** | 7.54 |

## 12 Investment properties

| | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|
| **Owned properties** | | |
| **At 1 January** | **174,739,425** | 164,278,166 |
| Additions during the year (below) | **2,740,795** | 8,286,695 |
| Transferred from capital work in progress | **2,996,648** | 1,826,794 |
| Arising on acquisition of subsidiary | **4,192,103** | - |
| Change in fair value during the year | **459,590** | 347,770 |
| **At 31 December** | **185,128,561** | 174,739,425 |
| **Leased properties** | | |
| **At 1 January** | **-** | - |
| Arising on adoption of IFRS 16 (note 4.1) | **26,944,198** | - |
| Arising on acquisition of subsidiary (note 7.5) | **18,577,754** | - |
| Change in fair value during the year | **(6,744,287)** | - |
| **At 31 December** | **38,777,665** | - |
| **Total at 31 December** | **223,906,226** | 174,739,425 |

The Group's investment properties are located as follows:

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| Kuwait | **198,671,154** | 148,421,800 |
| GCC and other countries | **25,235,072** | 26,317,625 |
| | **223,906,226** | 174,739,425 |

During the year, the Group has purchased investment properties located in United Arab Emirates from a related party for a total consideration of KD2,324,000.

Investment properties of KD158,624,538 (2018: KD153,594,200) are pledged against borrowings and due to banks (notes 25 and 27).

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

Note 34.3 sets out the measurement basis of fair value of the investment properties.

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# Notes to the consolidated financial statements

## 13 Properties under development

| | 31 Dec 2019 KD |
|---|---|
| **Cost** | |
| Land costs | **5,305,807** |
| Development costs | **2,144,892** |
| **Net book value at end of the period** | **7,450,699** |

Properties under development are located in UAE which have been acquired during the period for the purpose of developing staff housing buildings (note 18.2).

## 14 Financial assets at fair value through other comprehensive income

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| Local quoted securities | **6,453,699** | 9,156,652 |
| Local unquoted securities | **12,244,933** | 13,395,347 |
| Foreign unquoted securities | **6,912,181** | 7,847,632 |
| Debt instruments | **1,564,255** | 1,564,255 |
| | **27,175,068** | 31,963,886 |

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

| **31 December 2019** | **Financial services KD** | **Real estate KD** | **Consumer services KD** | **Others KD** | **Total KD** |
|---|---|---|---|---|---|
| Local quoted securities | **471,866** | **3,184,035** | **2,780,205** | **17,593** | **6,453,699** |
| Local unquoted securities | **1,836,852** | **6,375,853** | **3,753,792** | **278,436** | **12,244,933** |
| Foreign unquoted securities | **147,903** | **6,641,464** | **122,814** | **-** | **6,912,181** |
| Debt instruments | **-** | **1,564,255** | **-** | **-** | **1,564,255** |
| | **2,456,621** | **17,765,607** | **6,656,811** | **296,029** | **27,175,068** |
| **31 December 2018** | | | | | |
| Local quoted securities | 953,493 | 3,377,776 | 4,804,626 | 20,757 | 9,156,652 |
| Local unquoted securities | 3,191,296 | 6,609,316 | 3,499,544 | 95,192 | 13,395,348 |
| Foreign unquoted securities | 147,903 | 7,576,914 | 122,814 | - | 7,847,631 |
| Debt instruments | - | 1,564,255 | - | - | 1,564,255 |
| | 4,292,692 | 19,128,261 | 8,426,984 | 115,949 | 31,963,886 |

Debt instruments represent promissory notes of foreign companies and carry annual interest rate 9%.

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 34.2.

# Notes to the consolidated financial statements

## 15 Investment in associates

15.1 Details of the associates are set out below:

| Name of associate | Country of incorporation | Ownership Percentage 31 Dec. 2019 % | 31 Dec. 2018 % | Principal activities |
|---|---|---|---|---|
| Kuwait Building Materials Manufacturing – KSCC | Kuwait | **24.58** | 24.58 | Manufacturing |
| National Slaughter House Co. – KSCC | Kuwait | **44.22** | 44.22 | Consumer goods |
| First Slaughter Company – KSCC | Kuwait | **20.51** | 20.51 | Consumer goods |
| EFS Facilities Services General Trading and Contracting Company – WLL | Kuwait | **50** | 50 | General trading and contracting |
| KREC Yotel Miami Debt Company Limited | Cayman Islands | **100** | 100 | Investment |
| KREC Yotel Miami Equity Company Limited | Cayman Islands | **100** | 100 | Investment |
| Zamzam for Religious Tourism Company – KSCC (below) | Kuwait | **32.5** | - | Religious tourism |

The investment in Zamzam for Religious Tourism Company – KSCC arising from acquisition of subsidiary (note 7.5).

All the above associates are unquoted.

| | Year ended 31 Dec 2019 KD | Year ended 31 Dec 2018 KD |
|---|---|---|
| At 1 January | **5,919,095** | 3,623,001 |
| Arising from reclassification | **-** | 1,728,185 |
| Arising on acquisition of subsidiary (note 7.5) | **56,138** | - |
| Additions in associates | **1,543,967** | 734,926 |
| Share of results for the year | **573,788** | 304,148 |
| Dividend received | **(125,181)** | (471,165) |
| **At 31 December** | **7,967,807** | 5,919,095 |

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# Notes to the consolidated financial statements

**15 Investment in associates (continued)**

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

**a) KREC Yotel Miami Debt Company Limited:**

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| Non-current assets | **3,603,859** | 2,163,516 |
| Total assets | **3,603,859** | 2,163,516 |
| Net assets | **3,603,859** | 2,163,516 |

| | **Year ended 31 Dec 2019** | Year ended 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| Revenue | **203,118** | 137,412 |
| Profit for the year | **203,118** | 137,412 |
| Total comprehensive income for the year | **203,118** | 137,412 |

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 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| Group's ownership interest (%) | **100%** | 100% |
| Net assets of the associate | **3,603,858** | 2,163,516 |
| Group's share of net assets | **3,603,858** | 2,163,516 |
| Carrying amount | **3,603,858** | 2,163,516 |

# Notes to the consolidated financial statements

**15 Investment in associates (continued)**

**b) KREC Yotel Miami Equity Company Limited:**

| | **31 Dec 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| Non-current assets | **764,728** | 457,985 |
| Total assets | **764,728** | 457,985 |
| Non-current liabilities | **28,019** | 23,563 |
| Total liabilities | **28,019** | 23,563 |
| Net assets | **736,709** | 434,422 |

| | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2018 KD |
|---|---|---|
| Loss for the year | **(4,457)** | (2,585) |
| Total comprehensive loss for the year | **(4,457)** | (2,585) |

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 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| Group's ownership interest (%) | **100%** | 100% |
| Net assets of the associate | **736,709** | 434,422 |
| Group's share of net assets | **736,709** | 434,422 |
| Carrying amount | **736,709** | 434,422 |

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

| | **Year ended 31 Dec 2019 KD** | Year ended 31 Dec 2018 KD |
|---|---|---|
| Group's share of results | **375,127** | 169,321 |
| Group's share of the total comprehensive income | **375,127** | 169,321 |
| Aggregate carrying amount of Group's interest in associates | **3,627,240** | 3,321,157 |
| Dividends received | **125,181** | 471,165 |

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# Notes to the consolidated financial statements

## 16 Trading properties

The movement in the trading properties is as follows:

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| **Balance at 1 January** | **9,968,891** | 13,153,371 |
| Disposals | **-** | (3,184,480) |
| | **9,968,891** | 9,968,891 |
| Provision for trading properties | **(1,486,169)** | (852,546) |
| Foreign currency translation adjustments | **141,550** | 141,740 |
| **Balance at 31 December** | **8,624,272** | 9,258,085 |

The Group's trading properties are located in Lebanon.

Trading properties with a carrying value of KD 4,363,200 (2018: KD4,363,200) are pledged against borrowings (note 25).

## 17 Accounts receivable and other assets

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| **Financial assets** | | |
| Accounts receivable | **5,081,534** | 4,132,635 |
| Refundable deposits | **125,310** | 116,960 |
| Other assets | **944,874** | 906,454 |
| | **6,151,718** | 5,156,049 |
| Provision for doubtful debts | **(2,354,179)** | (1,954,179) |
| | **3,797,539** | 3,201,870 |
| **Non-financial assets** | | |
| Other assets | **174,537** | 210,807 |
| | **3,972,076** | 3,412,677 |

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 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| Balance at the beginning of the year | **1,954,179** | 1,242,787 |
| Arising on adoption of IFRS 9 | **-** | 107,259 |
| Charge for the year | **400,000** | 604,133 |
| Balance at the end of the year | **2,354,179** | 1,954,179 |

# Notes to the consolidated financial statements

**18 Advance payments for purchase of investments**

18.1 During 2018, the Group entered into an initial agreement with a related party to acquire a property located in the UAE for a total purchase consideration of AED400 million (equivalent KD33.2 million). The purchase price is to be settled partly in kind by transferring certain properties and balance in cash. However, this agreement has been amended subsequently and the purchase consideration has been revised to AED395 million without any in kind settlement. The Group is currently in the process of completing the regulatory formalities to register the properties in its name and arrange financing for the purchase. The amount of KD11,337,662 paid up to the reporting date has been accounted for as an advance payment.

18.2 On 27 December 2018, the Group entered into an agreement to purchase properties located in the UAE for a total amount of equivalent KD5,200,000. The title deeds of these properties were transferred to the Group during the current year. Accordingly, this amount has been reclassified from advance payment as of 31 December 2018 to properties under development.

18.3 During the year, the Group entered into an initial agreement with third party to acquire local properties for total consideration of KD4,170,000. As per the agreement, the Group shall paid an advance payment of KD10,000 at date of signing the agreement, whereas the remaining balance of KD4,160,000 will be paid subsequent to the date of signing the agreement. However, it was agreed in the agreement that the properties' return and the management of these properties will remain with the seller until the remaining balance has been settled, which has not been done as of the date of issuing of these consolidated financial statements. Accordingly, the amount of KD10,000 paid up to the reporting date has been accounted for as an advance payment.

**19 Financial assets at fair value through profit or loss**

| | **31 Dec 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| Local quoted securities | **132,082** | 14,186 |
| Local unquoted securities | **340,430** | 370,246 |
| Foreign quoted securities | **2,788** | 3,224 |
| Foreign unquoted securities | **17,823,868** | 16,910,049 |
| Debt instruments | **7,142,965** | 7,017,894 |
| Managed funds | **58,900** | 58,900 |
| | **25,501,033** | 24,374,499 |

The hierarchy for determining and disclosing the fair values of financial instruments is presented in Note 34.2.

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# Notes to the consolidated financial statements

## 20 Cash and cash equivalents

The movement in the trading properties is as follows:

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| Cash and bank balances | **1,582,263** | 2,504,544 |
| Cash in investment portfolios managed by others | **272,994** | 184,455 |
| Term deposits | **1,443,055** | 272,866 |
| **Cash and cash equivalents** | **3,298,312** | 2,961,865 |
| Less: | | |
| Due to bank | **(4,343,793)** | (4,399,393) |
| Restricted bank balances (see below) | **(288,664)** | (137,578) |
| Term deposits with original maturity exceeding three months | **(1,443,055)** | (272,866) |
| **Cash and cash equivalents for the purpose of the consolidated statement of cash flows** | **(2,777,200)** | (1,847,972) |

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 25). However, due to the current political and economic events, the central bank of Lebanon imposed a series of measures including restrictions on withdrawals and limitation of transfers of money abroad. Consequently, the Group lacks access to these bank balances on time and in full.

## 21 Share capital and share premium

At 31 December 2019, the authorized, issued and fully paid up share capital of the Parent Company comprised of 947,365,059 shares of 100 fils each (906,712,940 shares as at 31 December 2018). All shares are cash shares.

During the year, the Parent Company increased its share capital to KD94,736,506 by issuing 40,652,120 shares of 100 fils each for non-cash acquisition of 57.84% ownership interest in International Resorts Company – KPSC ("IRC") (note 7.5). As required by the Companies Law, the new shares were issued at par value of 100 fils. As a result, the difference between the par value KD4,065,212 and the fair value KD2,431,003 of the new shares issued amounting to KD1,634,209 has been recognised as a loss in the retained earnings in the consolidated statement of changes in equity.

The documentation in commercial register on share capital increase was completed on 11 March 2019.

The share premium is non-distributable.

# Notes to the consolidated financial statements

## 22 Treasury shares

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| Number of treasury shares | **83,305,381** | 16,944,661 |
| Percentage of ownership (%) | **8.79%** | 1.87 |
| Market value (KD) | **8,663,760** | 913,317 |
| Cost (KD) | **6,262,577** | 943,694 |

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

## 23 Other components of equity

| | **Statutory reserve KD** | **Voluntary reserve KD** | **Treasury shares reserve KD** | **Foreign currency translation reserve KD** | **Fair value reserve KD** | **Total KD** |
|---|---|---|---|---|---|---|
| **Balances at 1 January 2019** | **15,785,487** | **3,629,332** | **2,298,155** | **142,619** | **(119,684)** | **21,735,909** |
| Bonus shares issued (note 31) | **-** | **-** | **470,963** | **-** | **-** | **470,963** |
| Sale of treasury shares | **-** | **-** | **341,703** | **-** | **-** | **341,703** |
| Realised gain on disposal of financial assets at FVTOCI | **-** | **-** | **-** | **-** | **(59,047)** | **(59,047)** |
| Transferred to reserves | **741,539** | **741,539** | **-** | **-** | **-** | **1,483,078** |
| Other comprehensive (loss)/income: | | | | | | |
| Net change in fair value of financial assets at FVTOCI | **-** | **-** | **-** | **-** | **(8,503,054)** | **(8,503,054)** |
| Currency translation differences | **-** | **-** | **-** | **89,454** | **-** | **89,454** |
| **Balances at 31 December 2019** | **16,527,026** | **4,370,871** | **3,110,821** | **232,073** | **(8,681,785)** | **15,559,006** |
| **Balances at 1 January 2018** | **15,078,144** | **2,921,989** | **2,298,155** | **127,044** | **6,050,732** | **26,476,064** |
| Adjustments arising on adoption of IFRS 9 | **-** | **-** | **-** | **-** | **871,831** | **871,831** |
| **Balances at 1 January 2018 (restated)** | **15,078,144** | **2,921,989** | **2,298,155** | **127,044** | | |
| Realised gain on disposal of financial assets at FVTOCI | **-** | **-** | **-** | **-** | **6,922,563** | **27,347,895** |
| Transfer to reserves | **707,343** | **707,343** | **-** | **-** | **(112,235)** | **(112,235)** |
| Other comprehensive (loss)/income: | | | | | **-** | **1,414,686** |
| Net change in fair value of financial assets at FVIOCI | **-** | **-** | **-** | **-** | **(6,930,012)** | **(6,930,012)** |
| Currency translation differences | **-** | **-** | **-** | **15,575** | **-** | **15,575** |
| **Balances at 31 December 2018** | **15,785,487** | **3,629,332** | **2,298,155** | **142,619** | **(119,684)** | **21,735,909** |

# Notes to the consolidated financial statements

## 24 Reserves

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

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

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

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

## 25 Borrowings

| | **31 Dec 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| Murabaha payable (i) | **132,477,190** | 110,212,864 |
| Tawaroq payable (ii) | **1,256,344** | 2,261,419 |
| Term loans (iii) | **5,396,305** | 5,989,993 |
| Total | **139,129,839** | 118,464,276 |
| Borrowings in KD | **133,733,534** | 112,474,283 |
| Borrowings in USD, AED and LBP | **5,396,305** | 5,989,993 |
| Total | **139,129,839** | 118,464,276 |

The borrowings due for repayment as follows:

| | **31 Dec 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| Within one year | **5,768,622** | 6,892,877 |
| Over one year | **133,361,217** | 111,571,399 |
| | **139,129,839** | 118,464,276 |

i) Murabaha payable represents Islamic financing obtained in Kuwaiti Dinar from local Islamic banks, carry an annual profit rate of 1% - 1.25% (2018: 1.5% - 2%) over CBK discount rate and is repayable in different unequal instalments ending on 1 July 2029.

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

iii) Term loans are obtained in USD and Lebanese Pound from foreign banks. The USD loans carry an annual interest rate of 0.5% over USD Beirut Reference Rate ("BRR") with a minimum of 6.5% and the loans in Lebanese Pound carry an annual interest rate of 0.5% over LBP Beirut Reference Rate ("BRR") and the loans in AED carry an annual interest rate of 3.5% over EIBOR.

Borrowings are secured by pledge of Group's investment in certain subsidiaries, investment properties, financial assets at FVTOCI and trading properties (notes 7, 12, 14 and 16).

# Notes to the consolidated financial statements

## 26 Lease liabilities

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

| | Year ended 31 Dec 2019 KD |
|---|---|
| At 1 January | - |
| Effect of adoption of IFRS 16 (note 4.1) | 26,144,198 |
| Arising on acquisition of subsidiary (note 7.5) | 17,908,289 |
| Finance costs charged for the year (note 8) | 1,434,172 |
| Settled during the year | (8,232,000) |
| At 31 December | 37,254,659 |

Future minimum lease payments as at 31 December 2019 were as follows:

| | Minimum lease payments due | | Total |
|---|---|---|---|
| | One year KD | 1 - 5 years KD | KD |
| 31 December 2019: | | | |
| Lease payments | 8,232,000 | 32,928,000 | 41,160,000 |
| Finance charges | (1,272,432) | (2,632,909) | (3,905,341) |
| Net present values | 6,959,568 | 30,295,091 | 37,254,659 |

## 27 Accounts payable and other liabilities

| | 31 Dec 2019 KD | 31 Dec 2018 KD |
|---|---|---|
| **Financial liabilities** | | |
| Accounts payable | 6,059,577 | 3,757,664 |
| Accrued interests | 948,183 | 613,740 |
| Accrued expenses and leave | 669,117 | 585,701 |
| Kuwait Foundation for the Advancement of Sciences payable | 97,984 | 64,788 |
| National Labour Support Tax payable | 2,359,908 | 2,175,482 |
| Zakat payable | 451,953 | 378,184 |
| Dividends payable | 1,085,112 | 1,729,309 |
| Other liabilities | 441,295 | 533,309 |
| | 12,113,129 | 9,838,177 |
| **Non-financial liabilities** | | |
| Rent collected in advance | 1,089,933 | 1,194,144 |
| | 13,203,062 | 11,032,321 |

# Notes to the consolidated financial statements

## 29 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 2019 KD |
|---|---|---|---|---|
| **Balance at 1 January** | **118,464,276** | **-** | **4,399,393** | **122,863,669** |
| Effect of adoption of IFRS 16 (note 4.1) | **-** | **26,144,198** | **-** | **26,144,198** |
| Arising from acquisition of subsidiary | **-** | **17,908,289** | **-** | **17,908,289** |
| Cash flows: | | | | |
| • Repayment | **(33,515,469)** | **(8,232,000)** | **(55,600)** | **(41,803,069)** |
| • Proceeds | **54,181,032** | **-** | **-** | **54,181,032** |
| Non-cash transactions: | | | | |
| • Charged during the year | **-** | **1,434,172** | **-** | **1,434,172** |
| **31 December** | **139,129,839** | **37,254,659** | **4,343,793** | **180,728,291** |

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

# Notes to the consolidated financial statements

## 30 Related parties transactions and balances

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

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

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| **Amounts included in the consolidated financial position:** | | |
| Due from related parties | **6,953,467** | 2,019,328 |
| Due to related parties | **1,010,928** | 696,671 |
| Advance payments for purchase of investments (note 18.1) | **11,337,662** | 8,837,524 |
| Purchase of investment properties | **2,324,000** | 5,540,280 |

Financial assets at fair value through other comprehensive income amounting to KD433,799 (2018: KD523,678) and financial assets at fair value through profit or loss amounting to KD126,005 are managed by a related parties.

| | **Year ended** | Year ended |
|---|---|---|
| | **31 Dec 2019** | 31 Dec 2018 |
| | **KD** | KD |
| **Transactions included in the consolidated statement of profit or loss:** | | |
| Real estate rental income | **4,339,235** | - |
| Real estate operating expenses | **505,980** | 491,825 |
| General and administrative expenses | **493,018** | 255,000 |
| **Key management compensation:** | | |
| Salaries and short-term benefits | **295,038** | 113,279 |
| Employees' end of service benefits | **5,500** | 4,125 |

## 31 Proposed dividends and annual general assembly

Subsequent to the date of the consolidated statement of financial position, the board of directors have proposed distribute 5% bonus shares form treasury shares for the shareholders of the Parent Company without an increase in share capital or increase number of shares issued for the year ended 31 December 2019. Furthermore, the board of directors have proposed to distribute directors' remuneration of KD40,000 for the year then ended. This proposal is subject to the approval of the general assembly and the regulatory authorities.

The Annual General Assembly of the shareholders of the Parent Company held on 1 May 2019 approved the consolidated financial statements for the year ended 31 December 2018 and the board of directors proposal to distribute 5% bonus shares for the shareholders of the Parent Company by distributing 5 treasury shares for each 100 shares held without an increase in share capital. Furthermore, the General Assembly approved the board of directors' proposal to distribute directors' remuneration of KD40,000 for the year then ended.

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# Notes to the consolidated financial statements

## 32 Segmental analysis

| | Real estate KD | Investment KD | Unallocated KD | Total KD |
|---|---|---|---|---|
| **Year ended 31 December 2019:** | | | | |
| Income | **14,430,510** | **3,977,540** | **798,133** | **19,206,183** |
| Profit/(loss) for the year | **5,725,227** | **3,977,540** | **(2,482,436)** | **7,220,331** |
| **As of 31 December 2019:** | | | | |
| Total assets | **240,500,324** | **71,981,570** | **14,441,240** | **326,923,134** |
| Total liabilities | **180,728,292** | **13,203,062** | **1,982,978** | **195,914,332** |
| Net assets | **59,772,032** | **58,778,508** | **12,458,262** | **131,008,802** |
| **Year ended 31 December 2018:** | | | | |
| Income | 10,522,472 | 2,277,500 | 1,711,579 | 14,511,551 |
| Profit/(loss) for the year | 5,126,205 | 2,277,500 | (656,255) | 6,747,450 |
| **As of 31 December 2018:** | | | | |
| Total assets | 184,219,375 | 62,257,479 | 24,418,169 | 270,895,023 |
| Total liabilities | 126,071,665 | 11,032,319 | 1,482,570 | 138,586,554 |
| Net assets | 58,147,710 | 51,225,160 | 22,935,599 | 132,308,469 |

## 33 Risk management objectives and policies

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

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

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

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

### 33.1 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.

# Notes to the consolidated financial statements

**33 Risk management objectives and policies (continued)**

**33.1 Market risk (continued)**

**(a) Foreign currency risk (continued)**

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 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| USD | **36,494,454** | (1,311,410) |
| Euro | **529,542** | 1,668 |
| GBP | **5,371,243** | 24,801 |
| AED | **21,477,625** | (3,263,260) |

The following table details the Group's sensitivity to a 2% (2018: 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 2019** | 31 Dec 2018 |
|---|---|---|
| | **KD** | KD |
| Results for the year | **1,099,133** | 1,598,940 |
| Equity | **166,571** | 230,819 |

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

**(b) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to 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%) (2018: +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. 2019** | | 31 Dec. 2018 | |
|---|---|---|---|---|
| | **+ 1 %** | **-1 %** | + 1 % | -1 % |
| | **KD** | **KD** | KD | KD |
| Results for the year | **(1,398,815)** | **1,398,815** | (1,199,018) | 1,199,018 |

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**33 Risk management objectives and policies (continued)**

**(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% (2018: 5%) higher, the effect on the result for the year and equity would have been as follows.

| | **Result for the year** | | Equity | |
|---|---|---|---|---|
| | **31 Dec. 2019 KD** | 31 Dec. 2018 KD | **31 Dec. 2019 KD** | 31 Dec. 2018 KD |
| Financial assets at fair value through profit or loss | **1,275,052** | 1,218,725 | **-** | - |
| Financial assets at fair value through other comprehensive income | **-** | - | **1,358,753** | 1,598,194 |
| | **1,275,052** | 1,218,725 | **1,358,753** | 1,598,194 |

If prices of financial securities had been 5% (2018: 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

**33 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. 2019** | 31 Dec. 2018 |
|---|---|---|
| | **KD** | KD |
| Financial assets at fair value through other comprehensive income | **1,823,204** | 3,651,080 |
| Financial assets at fair value through profit or loss | **7,142,965** | 7,017,894 |
| Due from related parties | **6,953,467** | 2,019,328 |
| Accounts receivable and other assets | **3,797,539** | 3,201,870 |
| Cash and cash equivalents | **3,298,312** | 2,961,865 |
| | **23,015,487** | 18,852,037 |

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 KD288,664 located in Lebanon. During the year, 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 33.4.

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## 33 Risk management objectives and policies (continued)

### 33.3 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 2019 | 1 - 3 months KD | 3 - 12 months KD | Over 1 year KD | Total KD |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | **-** | **5,927,861** | **160,339,225** | **166,267,086** |
| Lease liabilities | **-** | **6,959,568** | **30,295,091** | **37,254,659** |
| Provision for employees' end of services benefits | **-** | **-** | **972,051** | **972,051** |
| Due to related parties | **-** | **1,010,928** | **-** | **1,010,928** |
| Accounts payable and other liabilities | **-** | **13,203,062** | **-** | **13,203,062** |
| Due to bank | **4,458,904** | **-** | **-** | **4,458,904** |
| | **4,458,904** | **27,101,419** | **191,606,367** | **223,166,690** |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | - | 7,223,158 | 111,323,302 | 118,546,460 |
| Provision for employees' end of services benefits | - | - | 785,897 | 785,897 |
| Due to related parties | - | 696,671 | - | 696,671 |
| Accounts payable and other liabilities | - | 11,032,321 | - | 11,032,321 |
| Due to bank | 4,608,364 | - | - | 4,608,364 |
| | 4,608,364 | 18,952,150 | 112,109,199 | 135,669,713 |

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

## 33 Risk management objectives and policies (continued)

### 33.3 Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2019:

| | 1 - 3 months KD | 3 - 12 months KD | Over 1 year KD | Total KD |
|---|---|---|---|---|
| **Assets** | | | | |
| Property and equipment | - | - | 207,386 | 207,386 |
| Investment properties | - | - | 223,906,226 | 223,906,226 |
| Capital work in progress | - | - | 519,126 | 519,126 |
| Properties under development | - | - | 7,450,699 | 7,450,699 |
| Financial assets at fair value through other comprehensive income | - | - | 27,175,068 | 27,175,068 |
| Investment in associates | - | - | 7,967,807 | 7,967,807 |
| Trading properties | - | 8,624,272 | - | 8,624,272 |
| Due from related parties | - | 6,593,998 | 359,469 | 6,953,467 |
| Accounts receivable and other assets | - | 3,972,076 | - | 3,972,076 |
| Advance payments for purchase of investments | - | 11,347,662 | - | 11,347,662 |
| Financial assets at fair value through profit and loss | - | 25,501,033 | - | 25,501,033 |
| Cash and cash equivalents (see below) | 3,298,312 | - | - | 3,298,312 |
| | 3,298,312 | 56,039,041 | 267,585,781 | 326,923,134 |
| **Liabilities** | | | | |
| Borrowings | - | 5,768,622 | 133,361,217 | 139,129,839 |
| Lease liabilities | - | 6,959,568 | 30,295,091 | 37,254,659 |
| Provision for employees' end of service benefits | - | - | 972,051 | 972,051 |
| Due to related parties | - | 1,010,928 | - | 1,010,928 |
| Accounts payable and other liabilities | - | 13,203,062 | - | 13,203,062 |
| Due to bank | 4,343,793 | - | - | 4,343,793 |
| | 4,343,793 | 26,942,180 | 164,628,359 | 195,914,332 |
| **Net liquidity gap** | (1,045,481) | 29,096,861 | 102,957,422 | 131,008,802 |

As of 31 December 2019, there are certain restrictions on the liquidity of cash and cash equivalents amount of KD288,664 (note 20).

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## 33 Risk management objectives and policies (continued)

### 33.3 Liquidity risk (continued)

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

| | 1 - 3 months KD | 3 - 12 months KD | Over 1 year KD | Total KD |
|---|---|---|---|---|
| **Assets** | | | | |
| Property and equipment | - | - | 1,986,775 | 1,986,775 |
| Investment properties | - | - | 174,739,425 | 174,739,425 |
| Capital work in progress | - | 221,864 | | 221,864 |
| Financial assets at fair value through other comprehensive income | - | - | 31,963,886 | 31,963,886 |
| Investment in associates | - | - | 5,919,095 | 5,919,095 |
| Trading properties | - | 9,258,085 | - | 9,258,085 |
| Due from related parties | - | 2,019,328 | - | 2,019,328 |
| Accounts receivable and other assets | - | 3,412,677 | - | 3,412,677 |
| Advance payments for purchase of investments | | 14,037,524 | - | 14,037,524 |
| Financial assets at fair value through profit and loss | - | 24,374,499 | - | 24,374,499 |
| Cash and cash equivalents | 2,961,865 | - | - | 2,961,865 |
| | 2,961,865 | 53,323,977 | 214,609,181 | 270,895,023 |
| **Liabilities** | | | | |
| Borrowings | - | 6,892,877 | 111,571,399 | 118,464,276 |
| Lease contracts liability | - | 3,207,996 | - | 3,207,996 |
| Provision for employees' end of service benefits | - | - | 785,897 | 785,897 |
| Due to related parties | - | 696,671 | - | 696,671 |
| Accounts payable and other liabilities | - | 11,032,321 | - | 11,032,321 |
| Due to bank | 4,399,393 | - | - | 4,399,393 |
| | 4,399,393 | 21,829,865 | 112,357,296 | 138,586,554 |
| **Net liquidity gap** | (1,437,528) | 31,494,112 | 102,251,885 | 132,308,469 |

# Notes to the consolidated financial statements

## 33 Risk management objectives and policies (continued)

### 33.4 Geographical Concentration

The distribution of the financial assets according to their geographical area in 2019 and 2018 are as follows:

| | Kuwait KD | Other Middle Eastern Countries KD | United States, Europe and other countries KD | Total KD |
|---|---|---|---|---|
| **As of 31 December 2019** | | | | |
| Financial assets at fair value through other comprehensive income | **18,846,540** | **-** | **8,328,528** | **27,175,068** |
| Due from related parties | **6,953,467** | **-** | **-** | **6,953,467** |
| Accounts receivable and other assets | **3,309,837** | **293,842** | **193,860** | **3,797,539** |
| Financial assets at fair value through profit or loss | **16,224,403** | **-** | **9,276,630** | **25,501,033** |
| Cash and cash equivalents | **2,699,339** | **20,488** | **578,485** | **3,298,312** |
| | **48,033,586** | **314,330** | **18,377,503** | **66,725,419** |
| **As of 31 December 2018** | | | | |
| Financial assets at fair value through other comprehensive income | 20,422,928 | 147,903 | 11,393,055 | 31,963,886 |
| Due from related parties | 2,019,328 | - | - | 2,019,328 |
| Accounts receivable and other assets | 2,763,709 | - | 438,161 | 3,201,870 |
| Financial assets at fair value through profit or loss | 3,426,985 | 142,598 | 20,804,916 | 24,374,499 |
| Cash and cash equivalents | 1,696,961 | 305,740 | 959,164 | 2,961,865 |
| | 30,329,911 | 596,241 | 33,595,296 | 64,521,448 |

## 34 Fair value measurement

### 34.1 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).

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# Notes to the consolidated financial statements

## 34 Fair value measurement (continued)

### 34.2 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 2019 KD** | 31 Dec 2018 KD |
|---|---|---|
| **Financial assets:** | | |
| ***At amortised cost:*** | | |
| Due from related parties | **6,953,467** | 2,019,328 |
| Accounts receivable and other assets | **3,797,539** | 3,201,870 |
| Cash and cash equivalents | **3,298,312** | 2,961,865 |
| ***At fair value:*** | | |
| Financial assets at fair value through profit or loss | **25,501,033** | 24,374,499 |
| Financial assets at fair value through other comprehensive income | **27,175,068** | 31,963,886 |
| | **66,725,419** | 64,521,448 |
| ***Financial liabilities:*** | | |
| ***Financial liabilities at amortised cost*** | | |
| Borrowings | **139,129,839** | 118,464,276 |
| Lease liabilities | **37,254,659** | - |
| Lease contracts liability | **-** | 3,207,996 |
| Provision for employees' end of service benefits | **972,051** | 785,897 |
| Due to related parties | **1,010,928** | 696,671 |
| Accounts payable and other liabilities | **13,203,062** | 9,838,177 |
| Due to bank | **4,343,793** | 4,399,393 |
| | **195,914,332** | 137,392,410 |

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

### 34 Fair value measurement (continued)

### 34.2 Fair value measurement of financial instruments (continued)

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

**31 December 2019**

| | 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 | **132,082** | **-** | **-** | **132,082** |
| Local unquoted securities | **-** | **-** | **340,430** | **340,430** |
| Foreign quoted securities | **2,788** | **-** | **-** | **2,788** |
| Foreign unquoted securities | **-** | **-** | **17,823,868** | **17,823,868** |
| Debt instruments | **-** | **-** | **7,142,965** | **7,142,965** |
| Managed funds | **-** | **58,900** | **-** | **58,900** |
| ***Financial assets at fair value through other comprehensive income:*** | | | | |
| Local quoted securities | **6,453,699** | **-** | **-** | **6,453,699** |
| Local unquoted securities | **-** | **-** | **12,244,933** | **12,244,933** |
| Foreign unquoted securities | **-** | **-** | **6,912,181** | **6,912,181** |
| Debt instruments | **-** | **-** | **1,564,255** | **1,564,255** |
| | **6,588,569** | **58,900** | **46,028,632** | **52,676,101** |

**31 December 2018**

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

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.

## 34 Fair value measurement (continued)

### 34.2 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

## 34 Fair value measurement (continued)

### 34.2 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. 2019 KD | 31 Dec. 2018 KD |
|---|---|---|
| Opening balance | **47,105,416** | 32,198,941 |
| Arising on acquisition of a subsidiary (note 7.5) | **32,466** | - |
| Additions | **-** | 11,764,088 |
| Disposals / transfer | **(142,598)** | (486,528) |
| Purchases | **5,720,829** | 5,860,436 |
| Change in fair value | **(6,687,481)** | (2,231,521) |
| Closing balance | **46,028,632** | 47,105,416 |

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.

### 34.3 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 2019 and 31 December 2018:

| | Level 1 KD | Level 2 KD | Level 3 KD | Total KD |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Investment properties | | | | |
| - in Kuwait | **-** | **-** | **198,671,154** | **198,671,154** |
| - in GCC & other countries | **-** | **-** | **25,235,072** | **25,235,072** |
| | **-** | **-** | **223,906,226** | **223,906,226** |

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

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 2019 and 2018, for the valuation purpose, the Group has selected the lower value of the two valuations obtained for each local investment property.

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## 34 Fair value measurement (continued)

### 34.3 Fair value measurement of non-financial assets (continued)

**Properties**

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

**Lands**

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

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

| Description | Valuation technique | Significant unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Buildings | Estimated rental stream approach | Monthly economic rental value | KD 403 to KD2,110 (2018: KD340 to KD2,100) | Fair value increases if economic rental value increases, and vice versa. |
| Lands | Market comparison approach | Estimated market price (per sq ft.) | KD14 to KD269 (2018: KD8 to KD125) | Higher the price per square meter, higher the fair value |

**Level 3 Fair value measurements**

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

| | 31 Dec. 2019 KD | 31 Dec. 2018 KD |
|---|---|---|
| Opening balance | **174,739,425** | 164,278,166 |
| Additions | **2,740,795** | 10,113,489 |
| Transferred from capital work in progress | **2,996,648** | - |
| Arising from acquisition of subsidiary (note 7.5) | **22,769,857** | - |
| Arising on adoption of IFRS 16 | **26,944,198** | - |
| Gain or losses recognised in consolidated statement of profit or loss on: | | |
| - Changes in fair value | **(6,284,697)** | 347,770 |
| Closing balance | **223,906,226** | 174,739,425 |

# Notes to the consolidated financial statements

## 35 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. 2019** | 31 Dec. 2018 |
|---|---|---|
| | **KD** | KD |
| Borrowings (note 25) | **139,129,839** | 118,464,278 |
| Due to bank (note 27) | **4,343,793** | 4,399,393 |
| Less: | | |
| Cash and cash equivalents (note 20) | **(3,298,312)** | (2,961,865) |
| Net debt | **140,175,320** | 119,901,806 |
| Equity | **131,008,802** | 132,308,469 |
| Net debt to equity ratio | **107%** | 90.6% |

## 36 Contingent liabilities and commitments

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

| | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| | **KD** | KD |
| Issued letters of guarantee | **10,773,828** | 4,084,374 |
| Capital commitments | **16,908,826** | 24,362,476 |
| | **27,682,654** | 28,446,850 |

Capital commitments represent developing costs for properties under development (note 13).

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 26).

# Notes to the consolidated financial statements

## 37 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 Subsequent events

Subsequent to reporting date on 11 March 2020, the World Health Organization characterised Virus Covid-19 as a pandemic, negatively impacting global markets, including Kuwait Stock Market (Boursa) which declined over 24% upto end of March 2020 disrupting supply chains, and changing social behaviour. It is uncertain if Covid-19 will continue disrupting global markets and what impact it will have on the Group's operation. As the situation is fluid and rapidly evolving, the Group do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

## 39 Comparative amounts

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