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INJAZZAT
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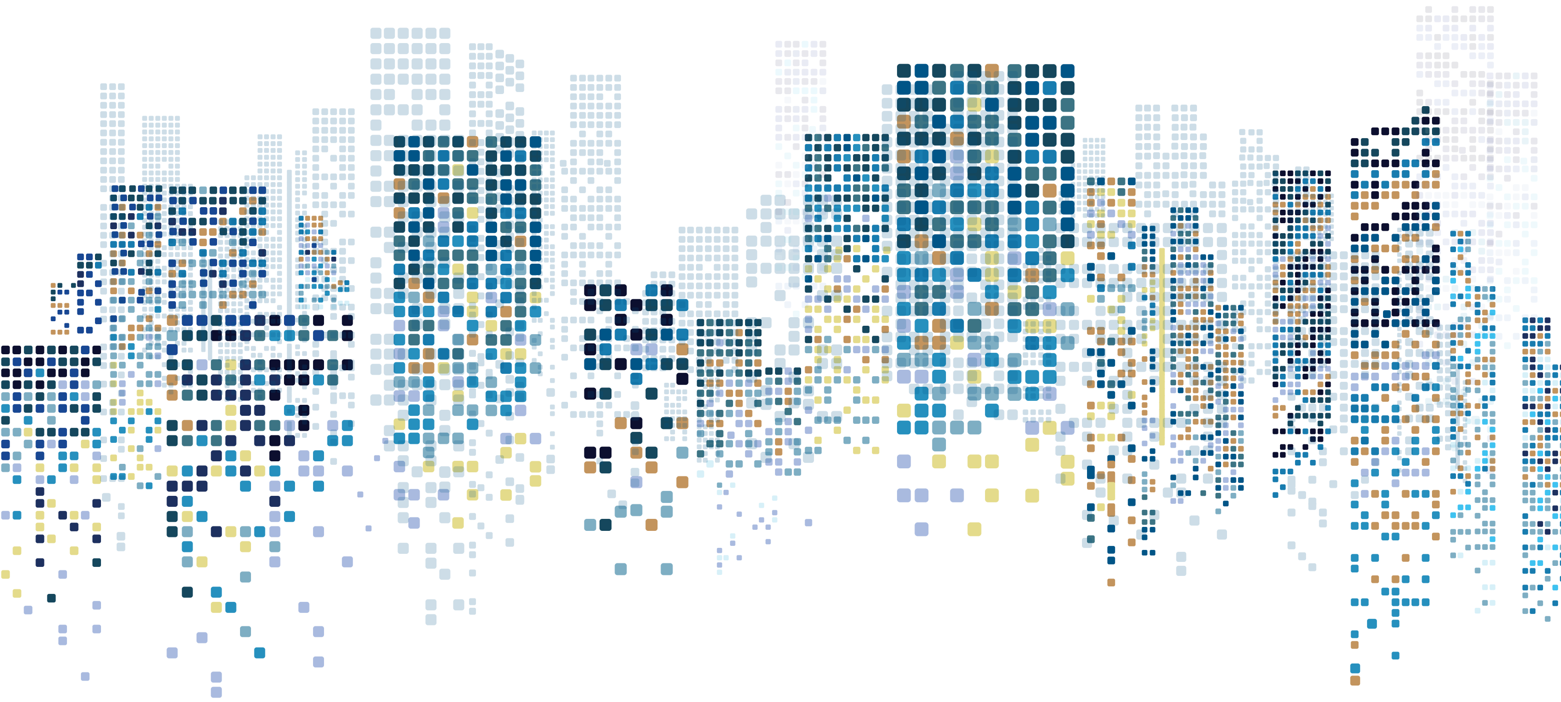
1998-2018
20 years of Achievement ...

# Annual Report
# 2018



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HIS HIGHNESS
**SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH**
Amir of the State of Kuwait

HIS HIGHNESS
**SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH**
Crown Prince

HIS HIGHNESS
**SHEIKH JABER AL-MUBARAK AL-SABAH**
Prime Minister

# BOARD MEMBERS

FAISAL FAHAD AL-SHAYA
Chairman

MOHAMED ABDUL HAMEED AL-MARZOOK
Vice Chairman

MOHAMMAD IBRAHIM AL-FARHAN
Board Member and CEO

IESA AHMED KHALAF
Board Member

WAFA HAIDAR AL-SHEHABI
Board Member

AYMAN ABDULLATEEF AL-SHAYA
Board Member

HAMAD EMAD AL-SAQER
Board Member

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## Chairman's Message

Board of Directors Report
Dear Shareholders of Injazzat Real Estate Development Co.

On behalf of the board of directors of Injazzat Real Estate Company, I am pleased to present to you the annual report and the governance report for the financial year ending on the 31st of December 2018. I would like to take you through a selection of our achievements as well as our financial results for 2018.

With this year, our company marks 20 years in business since its establishment in 1998. These years have been marked with achievements and expansions in line with the goals of the company when it was first established.

It is a pleasure to inform you about the positive results Injazzat has achieved in recent years, which have kept us in a leading position among real estate companies.

We aim to diversify our risks and therefore achieve targeted returns and profit by continuing to implement the company's expansion strategy, as well as diversify our assets in terms of location and quality.

In this report, we will present a selection of the achievements Injazzat has realized thanks to your continuous support as shareholders and from all the members of our staff.

On the local level, Injazzat continued to develop real estate investment and continued to contribute to the commercial real estate sector. Our most recent investment in this regard in 2018 was a project in Ahmed Al Jaber street in the heart of Kuwait City. The company purchased an old building on a 300 square meter plot of land with a construction rate of about 920%, with the aim of demolishing it and building a 22-story office tower with a total area of 6,300 square meters, including two basement floors, a ground floor, and a mezzanine floor. The building provides small and medium-sized office spaces, which have shown an increased demand.

On the regional level, Injazzat has built and developed the Catamaran residential project in Bahrain. It consists of two residential towers that stand as architectural masterpieces in the central hub of the city. They contain 571 apartments in addition to a commercial complex containing restaurants and shops. The company decided to sell the units of the first tower which was finished in 2018, and will offer the second tower, to be finished in 2019, for rent in order to add another stable stream of revenue to the company.

Injazzat has also sold the Al Barsha office tower in the United Arab Emirates, a building with a total area of 300,000 square feet.

Internationally, the company continued to diversify its investments and seek the best returns for its shareholders through the sale of the last two assets in the French Alpha Investment Fund, thus exiting the fund and receiving its returns.

As for the company's financial performance at the end of 2018, the total assets came to 111.4 million KD, a 2% decrease from last year's 113.9 million KD by reducing its obligations to the bank. Shareholders' value reached 61.6 million KD compared to 60 million KD in 2017, a 3% growth.

The general financial performance of the company in 2018 was good, as our total revenues reached 9.1 million KD at the end of 2018, up from 8.6 million KD in 2017 with a 6.5% growth. The revenues from rent increased from 3.7 million KD in 2017 to 3.9 million KD in 2018 a 6.5% increase. Expenses and other operating costs stabilized in 2018 as 5.1 million KD compared to 5.1 million KD in 2017, increasing net profit to 4 million KD in 2018, an increase of 13.5% from 2017's figure of 3.5 million KD.

As a result of this positive report, the board of directors recommended the distribution of 7% for shareholders, a cash dividend equivalent of 7 fils per share. This recommendation is subject to the approval of the general assembly as well as the competent authorities.

Ladies and gentlemen, Injazzat Company shareholders;

Last but not least, I would like to present my sincerest appreciation and respect for your continuous support for our board and executive management and every employee at Injazzat. I would like to renew my commitment to maintaining a positive performance at Injazzat as well as dedicating all the needed efforts and resources to achieve greater results for each of us in the coming years.

**Faisal Fahad Al Shaya**

Chairman of the Board

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# CORPORATE GOVERNANCE REPORT

## 2018

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## First Rule

## Building a balanced Board structure

### 1-1 Formation of the Board of Directors:

The Company has built a balanced Board structure so that the majority of Board members are non executive directors and the Board has an independent member. In the Board formation, the Company considered the appointment of members with diverse and prolonged experience in the Company field of work and in the financial and accounting fields to add the expertise which the Company needs when discussing the issues presented to the Board.

On 2 May 2016, the Board was restructured in line with the provisions of the Company Law and the instructions of the Capital Market Authority. The Company Board of Directors consists of seven members. Following is a statement with the Board members' classification, qualifications and experiences:

| Name | Member's Classification | Academic Qualification and Work Experience | Date of Election / Appointment |
|---|---|---|---|
| Mr. Faisal Fahad Mohamad Al-Shaya | Board Chairman (non executive) | • Bachelor in Business Management – Cairo University<br>• Experience of more than 30 years in the investment and real estate field | 2 May 2016 |
| Mr. Mohamed Abdul Hamid Al Marzouk | Deputy Board Chairman (non executive) | • Bachelor in Finance – San Francisco University, USA<br>• Working experience of more than 20 years in investment and real estate companies in Kuwait | 2 May 2016 |
| Mr. Mohamed Ibrahim Al Farhan | Board Member and CEO (executive) | • Bachelor in Accounting, San Jose University, California, USA<br>• Experience in leadership and executive positions, in board members and in the representation of many companies for more than 30 years in the investment and real estate field | 2 May 2016 |

| | | | |
|---|---|---|---|
| Mr. Eissa Ahmed Khalaf | Board Member (independent) | • Master in Business Management, Dallas University, Texas, USA<br>•Experience in leadership positions for more than 30 years | 2 May 2016 |
| Mr. Wafa Haydar Al Shahabi | Board Member (non executive) | • Master in Mechanical Engineering - Wisconsin University, USA<br>• Working experience of more than 40 years in investment and industry | 2 May 2016 |
| Mr. Ayman Abdul Latif Al-Shaya | Board Member (non executive) | • Bachelor in Mechanical Engineering – Kuwait University<br>• Having hold leadership positions for more than 30 years | 2 May 2016 |
| Mr. Hamad Emad Al Sagr | Board Member (non executive) | • Bachelor of Finance – American University in Kuwait<br>•Working experience in the real estate and banking fields in the State of Kuwait | 2 May 2016 |

In its meeting dated 2 May 2016, the Board of Directors appointed Mr. Saed Mahmoud Hemeda as Secretary of the Board of Directors. Mr. Saed holds the position of Deputy General Manager for Financial and Administrative Affairs. The Board of Directors has approved the job description of the Board Secretary who will assist the Chairman in all the issues related to the preparation of the Board meeting agenda, issuance of Board meeting invitations to all the Board members. Moreover, the Board Secretary notes down all the resolutions and discussions of the Board members as well as the results of voting of the Board resolutions and keeps the related documents. The Company maintains a register for all the Board meetings and their respective minutes. The Board meetings minutes are signed by all the Board members and the Secretary. The Company has set a mechanism for the Board members to request and obtain information. This mechanism was approved by the Board of Directors.

**<u>1-2 Board Meetings:</u>**

The Board meets on a regular basis. The Board of Directors has met (6) times in 2018 Following is a statement of the Board meetings and the attendance of members.

| Name of the Board Member | Meeting (1) held on 23 April 2018 | Meeting (2) held on 30 April 2018 | Meeting (3) held on 1 August 2018 | Meeting (4) held on 7 September 2018 | Meeting (5) held on 28 October 2018 | Meeting (6) held on 28 January 2019 |
|---|---|---|---|---|---|---|
| **Faisal Fahad Mohamad Al-Shaya**<br><br>**Board Chairman** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Mohamed Abdul Hamid Al Marzouk**<br><br>**Deputy Board Chairman** | ✓ | | ✓ | ✓ | | |
| **Mohamed Ibrahim Al Farhan**<br><br>**Board Member and CEO** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Eissa Ahmed Khalaf**<br><br>**Board Member** | ✓ | | ✓ | ✓ | ✓ | ✓ |
| **Wafa Haydar Al Shahabi**<br><br>**Board Member** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Ayman Abdul Latif Al-Shaya**<br><br>**Board Member** | ✓ | | ✓ | ✓ | ✓ | ✓ |
| **Hamad Emad Al Sagr**<br><br>**Board Member** | ✓ | ✓ | ✓ | ✓ | | ✓ |

## Second Rule

## Setting the duties and responsibilities properly

### 2-1 Powers and Responsibilities

The Board of Directors has approved the Board Bylaw which indicates in detail all the powers, functions and duties of the Board and has approved the job descriptions of the Board of Directors and the executive management which separates the duties and powers between the Board of Directors and the executive management to ensure the independency and full effectiveness of all parties. The Company has a table for the authorities of approval of transactions. The key responsibilities of the Board of Directors include the following:

- To set and periodically review the Company objectives, strategies, plans, policies, main work plans, financial structure, organizational structures and job structures of the Company.
- To approve the annual estimated balance sheets as well as the interim and annual financial statements.
- To supervise the key capital expenditures of the Company in addition to the ownership of shares and assets and disposal thereof.
- To approve the businesses and activities, participation in the service lines and exiting from them.
- To ensure the Company compliance with the policies and procedures which ensure the Company respect of the applicable internal regulations and rules.
- To establish effective communication channels allowing the Company shareholders to be regularly updated with the Company activities and any material developments.
- To implement the corporate governance system and control the effectiveness of its implementation.

### 2-2 Key achievements of the Board of Directors in 2018:

The Board of Directors has fulfilled many duties in 2018. Following is a statement of the key achievements of the Board of Directors:

- Follow-up with the Company performance and the elements of the strategic plan carried out so far.
- Acuisition and disposion of various investments and projects locally and internationally.
- Review of the Company interim and annual financial statements.
- Review of the remuneration structure and update of the remuneration policy at the Company level.
- Review of the organizational structure of the Company and update the same according to the governance requirements.
- Ensuring the Company compliance with the laws and legislations related to the Company businesses.
- Review and discussion of reports submitted by the company management.

- Verification of the Company compliance with all the laws and legislations related to the Company activities.

- Discussion of the risks facing the Company business and its risk appetite.

- Follow-up with the implementation of the corporate governance instructions.

## 2-3 Board Committees:

The Board of Directors has formed a number of specialized committees and approved their bylaws. The governance instructions and rules issued by the Capital Market Authority were considered when forming the Board committees. These committees include the following:

- **The Audit and Risk Management Committee:**

This Committee was formed by virtue of the Board resolution in its meeting No. 2/2016 dated 30 June 2016 for three years and its working bylaw was approved according to the governance rules. The Audit and Risk Management Committee tries to establish the culture of compliance in the Company through the integrity of the Company financial reports and the efficiency and effectiveness of the internal controls applied in the Company in addition to the review of the organizational structure and the Company risk management strategies and policies.

The Committee consists of three non executive Board members and has an independent member. The Committee held four meetings in 2018. Following is a statement with the Committee members and meetings:

| Committee Members | Position | Classification of the Member |
|---|---|---|
| Mr. Eissa Ahmed Khalaf | Committee Chairman | Independent member |
| Mr. Wafa Haydar Al Shahabi | Committee Member | Non executive member |
| Mr. Hamad Emad Jassem Al Sagr | Committee Member | Non executive member |
| **The Committee held four meetings on these dates:** | | • 25 March 2018<br>• 30 April 2018<br>• 1 August 2018<br>•28 October 2018<br>•28 January 2019 |

The Audit and Risk Management Committee report includes a detailed statement of the Committee duties and achievements in 2018

- **The Remuneration and Nomination Committee:**

The Committee was formed by virtue of the Board resolution in its meeting No. 2/2016 dated 30 June 2016 for three years and its working bylaw was approved according to the governance rules. The Remuneration and Nomination Committee is in charge of providing suggestions to the Board of Directors regarding the nominations to the positions of Board and executive management members, assessment of their performance and review of the remuneration and benefits paid to the Board and executive management members. Following is a statement with the Committee members, meetings and key achievements in 2017:

| Committee Members | Position | Classification of the Member |
|---|---|---|
| Mr. Faisal Fahad Al-Shaya | Committee Chairman | Non executive member |
| Mr. Eissa Ahmed Khalaf | Committee Member | Independent member |
| Mr. Ayman Abdul Latif Al-Shaya | Committee Member | Non executive member |
| The Committee held one meeting on: | | • 28 January 2019 |
| **The Committee achieved a number of achievements in 2018 including:** | • Supervision of the Board assessment, self assessment of the members and the CEO's performance assessment<br>• Identification of the required skills for the Board membership and annual review of such requirements<br>• Verifying that the independent board member doe not lack the independency capacity.<br>• Identification of the different segments of compensation to be paid to the employees. | |

- **The Executive Committee:**

The Committee was formed by virtue of the Board resolution in its meeting No. 2/2016 dated 30 June 2016 for three years. Consisting of three Board members, the Executive Committee assists the Board in the follow-up of the Company performance and its strategic plan. Following is a statement of the Committee members, meetings dates and key achievements:

| Committee Members | Position | Classification of the Member |
|---|---|---|
| Mr. Faisal Fahad Al-Shaya | Committee Chairman | Non executive member |
| Mr. Mohamed Abdul Hamid Al Marzouk | Committee Member | Non executive member |

<table>
<tr><td>Mr. Mohamed Ibrahim Al Farhan</td><td>Committee Member</td><td>Executive member</td></tr>
<tr><td>The Committee undertakes a number of functions including:</td><td colspan="2">• Discussion of the strategy, work plan and estimated balance sheet of the Company before their presentation to the Board.<br>• Periodic follow-up of the implementation of the strategic plan and the performance indicators<br>• Review of the Company performance in general and detailed performance of all the Company sectors and discussion of deviations from the work plan and estimated balance sheet.<br>• Discussion of the Company existing and new investments and providing recommendations in this regard.<br>• Review of the Company project progress rates and discussion of any implementation difficulties.</td></tr>
</table>

## 2-4 The Executive Management:

The Company executive management consists of the CEO, the Deputy General Manager for Financial and Administrative Affairs, the Investment Manager and the General Manager in Dubai Office . The Company has the job descriptions setting the functions and responsibilities of every executive management member and the duties assigned thereto. The executive management key duties include without limitation:

- Implementation of all the Company policies, regulations and internal systems approved by the Board of Directors.
- Implementation of the strategy and annual plan approved by the Board of Directors.
- Preparation of the periodic financial and non-financial reports on the progress achieved in the Company activities in view of its plans and strategic objectives and presentation of such reports to the Board of Directors.
- Management of the day-to-day businesses of the Company and steering of its activities in addition to the optimum management of the Company human resources, maximizing the profits and minimizing the costs in line with the Company objectives and strategy.
- Effective participation in building and development of the Company ethical values.
- Setting the internal control and risk management systems, ensuring the effectiveness and efficiency of such systems and ensuring the compliance with the risk appetite approved by the Board.

## 2-5 Providing information and data to the Board members

The Company has a mechanism regulating the Board members’ full, accurate and timely access to information and data to enable them discharging their duties and responsibilities with high efficiency and effectiveness.

## Third Rule

## Selection of efficient persons for the board and executive management membership

### 3-1 Nomination to the Membership of the Board of Directors and Executive Management:

- The Board of Directors has formed the Remuneration and Nomination Committee in charge of receiving the applications for the candidature of the Board and executive management membership and submission of recommendations in this regard to the Board of Directors. The Board has approved a charter with the Committee duties and responsibilities as indicated above.

### 3-2 Remuneration of the Board and the executive management

- The Board of Directors has approved the remuneration policy with the system of incentives and benefits granted to the Board and executive management members to ensure the transparency of calculation and payment of remuneration. Following is an overview on the remuneration policy for the Board and executive management members.

#### 3-2-1 The Board Remuneration

The Board remuneration system covers the following:

- The Board remuneration: This is calculated according to the provisions of Article 198 of the Companies Law No. 1 / 2016 stating that "The aggregate of the Board remunerations may not exceed ten per cent of the net profits after deducting any depreciation and reserves and distributing profit dividends of at least five per cent159 of the company's capital to shareholders or any greater percentage, as may be stipulated by the Company Contract. Subject to a resolution of the ordinary general meeting, the independent members of the board of directors may be exempt from the limits set for the remunerations. The Board remunerations shall be approved by the Company ordinary general meeting".

- **Committee Allowances**: These allowances are paid for the efforts made by the Board members in return for their participation in the committee works and discharging the duties assigned by the Board to the committees according to the committees work bylaws approved by the Board. A board member is paid an annual cash allowance for his / her return in the works of every committee.

- **Other Allowances** – This cash amount is the compensation of the Board assignment of some powers or responsibilities of the Board to any of its members under the provisions of Article 185 of the Companies Law No. 1 / 2016.

#### 3-2-2 The executive management remuneration

The executive management remuneration is divided into two sections:

- **Fixed remuneration and allowances** – This group includes the fixed salaries, allowances and benefits paid to the executive management members according to their approved employment contracts and the internal policies of the Company.

- **Variable remuneration**: This group includes the amounts of variable remuneration related to performance and achievement of the Company objectives.

- The Remuneration and Nomination Committee submits a suggestion to the Board on the amounts suggested to be paid to the executive management members.

## 3.3 Remuneration Report

The Company sets the remuneration of the Board and executive management in line with the remuneration policy approved by the Board of Directors. Following is an analysis of the remuneration granted to the Board and executive management as indicated below:

### 3-3-1 The Board remuneration

The aggregate remuneration and benefits paid to the Board of Directors is KD 155,000 Following is a breakup of such amounts:

Total remuneration of the Board of Directors: KD 105,000

Total allowances of the committees: KD 50,000

### 3-3-2 Salaries and benefits of the executive management:

The salaries and benefits of the executive management consist of the fixed remuneration segment including the salaries and benefits and the variable remuneration segment including the annual bonuses paid to the executive management members. Following is a statement with the remuneration paid to the executive management in respect of the fiscal year ending 31 December 2018:

| | KD |
|---|---|
| Fixed remuneration segment (salaries and other benefits | 318,176 |
| Variable remuneration segment (annual bonus) | 123,488 |
| **Total** | **441,664** |

- There is no deviation from the remuneration policy approved by the Board of Directors.

### 3-3-3 Statement of remuneration of the Board of Directors and the executive management

The Company maintains an accurate and detailed statement of all the salaries, bonuses and other financial benefits to which every member of the Board of Directors and the executive management is entitled.

## Fourth Rule

## Ensuring the integrity of the financial reports

Injazzat believes that the soundness of the financial statements is a key indicator of the Company integrity and credibility in the presentation of its financial position and in the enhancement of the investors' trust in the statements and information provided by the Company. Therefore, Injazzat has set the mechanisms and procedures to ensure the soundness of the Company financial statements as follows:

### 4-1 Role of the Audit and Risk Committee in the review of financial statements

- The Audit and Risk Committee has reviewed the interim and annual financial statements and discussed them with the executive management before their presentation to the Board of Directors.

- The Audit and Risk Committee periodically meets with the external auditors to discuss the accounting policies and financial statements. The Committee has met (5) times during 2018.

**4-2 Undertakings for the integrity and soundness of the financial reports**

The Company executive management submits written undertakings to the Board of Directors on the integrity and soundness of the financial reports. The Company annual financial statements in respect of the fiscal year ending 31 December 2018 were presented in the Board meeting number 6 dated 28 January 2019. Therefore, the Board assures to the shareholders the integrity and soundness of the Company financial reports and that they have been prepared in accordance with the international accounting standards approved by the Capital Market Authority.

**4-3 The external auditor**

- Any services provided by the external auditor are presented to the Audit and Risk Committee to verify the independency of the external auditor.
- The Audit and Risk Committee has assessed the performance of the external auditor and recommended to the Board on the appointment or reappointment of the external auditor.
- The Company has appointed M/s. Grant Thornton – Al-Qatami, Al-Aiban & Partners and M/s. Ernst & Young Al Aiban - Al Osaimi & Partners as the Company auditors in the year ending 31 December 2018.

## Fifth Rule

## Setting proper risk management and internal control systems

**5-1 The Risk Internal Audit Management Committee**

The Board of Directors has formed the Audit and Risk Management Committee on 30 June 2016. The Committee met during the year 2018 to discuss the limits of risks and challenges facing the Company and the mechanism of their management.

**5-2 Risk Management Unit**

The Company has established a Risk Management Unit reporting directly to the Board of Directors. The Company organizational structure was modified to clearly reflect the establishment of the Risk Management Unit. In 2016, the Board of Directors assigned a specialized consultancy company to perform all the risk management duties.

**5-3 Internal Audit and Control Systems**

The Company has internal audit and control systems in place covering all its activities. Such systems keep the Company financial integrity, the accuracy of its information and the efficiency of its operations from all aspects through the approved organizational structures which respect the principle of full separation of duties and non conflict of interests. Moreover, the Company has policy guides and work procedures which clearly set the powers and responsibilities. The Company has assigned an auditor to audit its internal audit and control systems.

### 5-4 Internal Audit Unit

An independent internal unit reporting directly to the Audit and Risk Committee was established. The Company organizational structure was modified on 30 June 2016 to clearly reflect the establishment of the Unit and its reporting to the Audit and Risk Committee. The Board of Directors assigned a specialized consultancy company to perform all the Unit duties.

## Sixth Rule

## Enhancement of the professional attitude and ethical values

### 6-1 Criteria and factors of the professional and ethical attitude:

The Company, represented by the Board of Directors, the executive management and all the staff, believes that the professional and ethical attitude constitutes one of the key factors of the Company

success in achieving its objectives. Building on this belief, the Board has approved a policy outlining the criteria of the Company professional and ethical attitude including the criteria of professional and ethical attitude and the responsibilities of the Board of Directors, the executive management and the staff. On 30 June 2016, the Board of Directors approved the whistle-blowing policy setting a mechanism for the employees and stakeholders to report any incorrect or suspicious practices and setting the appropriate arrangement to ensure that an independent investigation is conducted.

### 6-2 Policies and mechanisms of minimizing the conflict of interests

On 30 June 2016, the Board of Directors approved the policies and mechanisms of minimizing the conflict of interests as well as the methods of treatment and handling of such cases within the corporate governance framework subject to the provisions of the Companies Act.

This Policy aims to minimize the conflict of interests and it is approved by the Board to ensure the implementation of appropriate actions to reveal the material cases of conflict of interests, to effectively manage them, to ensure that the Board deals with the existing, potential and expected of cases of conflict of interests and that all the decisions are taken in a way that protects the Company interests.

## Seventh Rule

## Accurate and timely disclosure and transparency

### 7-1 Disclosure and Transparency Policy

The Company is open, credible and collaborative. To achieve the Company core values and to implement the principle of “the best governance practice” and in compliance with the regulatory requirements, on 30 June 2016, the Board of Directors approved the Disclosure and Transparency Policy. The Policy clearly sets the general rules of disclosure and the disclosure procedures and mechanism. The Policy explains the Company Compliance Department responsibility for the management of disclosure operations and verification of the compliance with the timely and accurate disclosure of statements according to the CMA instructions as well as the applicable laws and regulations. Moreover, the Policy emphasizes the publishing of information on the Company website.

In addition, on 30 June 2016, the Company Board of Directors approved the Manual of Insiders’ Trading to enhance the disclosure and transparency principle in all its transactions. The Manual indicates the insiders of the Company, the information that should be disclosed, the disclosure times, the trading prohibition periods and the procedures of the insiders’ trading in securities.

## 7-2 Disclosure Register

The Company keeps a register for the disclosures made by the members of the Board and the executive management. Such register contains disclosures about the ownership percentages, the trading in the Company shares as well as the acknowledgments and undertakings submitted by the members of the Board and the executive management in their capacity as insiders. Such register is kept at the Company headquarters and is accessible by all the shareholders without charge. It is periodically updated to reflect the related parties' situations.

## 7-3 Investors' Affairs Unit

The Company has an independent unit in charge of providing and making available the necessary information, data and reports about the current and potential investors of the Company. The duties of such Unit are assigned to Mr. Saud Al Fowzan. All the information, reports and news are published in the Company website. He communicates with the investors and shareholders through the following numbers or e-mail addresses:

**sfowzan@injazzat.com**

**22275254**

## 7-4 Reliance on the information technology infrastructure in the disclosure operation

The Company has developed a basic information technology_infrastructure and has relied on such infrastructure largely in its disclosure operations. In addition, a corporate governance3 division was established to present all the information and data helping current and potential investors and shareholders practicing their rights and assessing the Company performance.

# Eighth Rule

## Respect of the shareholders' rights

## 8-1 Protection of the shareholders' general rights and encouraging them voting in the general assembly meetings

The Company complies with its responsibility towards shareholders to adopt the highest standards of corporate governance. It believes that the proper implementation of corporate governance enhances the value for its shareholders. The Company treats all the shareholders on equal basis and without discrimination. In no event, the Company holds and information or shareholders' rights and in this regard, it complies with all the provisions of the laws, instructions and regulatory controls.

On 30 June 2016, the Company Board of Directors approved a policy for the protection of the shareholders' rights. This policy explains the role of the Board and the executive management in the protection of the shareholders' rights and to ensure that all the shareholders' classes are entitled to the same voting rights and the same treatment. The policy further provides all the information related to the voting rights and all the shareholders' classes are provided with the opportunity to hold the Board accountable for the duties assigned thereto.

The agenda of the shareholders general assembly is discussed propr to the meeting in accordance with regulaions set by regulators. This is to ensure that all shareholders have the opportunity to participate in the general assembly.

**8-2 Accuracy and continuous follow-up of the shareholders' information**

The Company maintains a special register kept at the Clearinghouse where the shareholders' names, nationalities, addresses and their respective numbers of shares are entered. Any changes to the information shall be marked in the shareholders' register. The Company shall give the shareholders access to the register and the information entered therein shall be treated with highest levels of protection and confidentiality.

## Ninth Rule

## Perception of the stakeholders' role

The Company tries to respect and protect the stakeholders' rights in all its internal and external transactions and deals. The stakeholders' contributions constitute an important resource for building the Company competitive capacity and support the levels of its profitability. To protect the stakeholders' transactions with the Company, whether contracts or deals, the Company has approved internal policies and regulations including without limitation:

- Stakeholders' rights protection policy
- Conflict of interests' minimization policy
- Whistle-blowing policy
- Policy of transactions with related parties
- Purchase and contracting policy and procedures

The Company provides information about its activities and publishes it on website to give the stakeholders access to the necessary information about the Company. Furthermore, the Company gives the stakeholders access to financial statements and information related to their activities and transactions with the Company through its Finance Department.

The Company Board of Directors has approved the whistle-blowing policy by virtue of which the Company complies with the integrity and professional and ethical behavior in all the transactions and offers the opportunity to the stakeholders to report any violation or any illegal, unethical or illegitimate activities. Meanwhile, the Company complies with the confidentiality in the procedures of investigation in the violation while providing protection to the whistleblowers so that they are not subject to retaliation.

## Tenth Rule

## Performance enhancement and improvement

**10-1 Training of the Board and executive management members**

A consulting company in the field of governance has held a training course during the year for the Board and executive management members on the compliance in view of the Companies Law and the instructions of the Capital Market Authority.

**10-2 Assessment of the performance of the Board of directors and the executive management**

The Company has set systems and mechanisms for the assessment of the performance of the Board of directors and the executive management through a number of objective key performance indicators related to the achievement of the Company strategic objectives.

**10-3 The corporate values**

The Company has policies and procedures contributing to the achievement of the strategic objectives and enhancement of the corporate values of the workers for the protection of the Company financial soundness.

In addition, the Company issues integrated reports assisting the Board and executive management members to take the decisions contributing to the achievement of the shareholders' interests.

## Eleventh Rule

### Focusing on the importance of social responsibility

On 30 June 2016, the Board of Directors approved the corporate social responsibility policy aiming at striking balance between the Company objectives and the community objectives and which guarantees that the Company manages its corporate social responsibility to achieve the sustainable development of the community and the workers through the contribution to the job creation, minimization of the unemployment levels in the community and optimum utilization of the available sources.

Moreover, Injazzat embarked on a number of initiatives in the field of corporate social responsibility through the use of material and accessories protecting the environment and public health and the use of power saving internal tools and the Company keenness in all its projects to set the systems for removal of wastes in a safe way which protects the environment and the community public health.

During 2018 Injazzat participated in a program initiated by Kuwait Red Crecent to assist in the education of children in need in Kuwait without discrimination regarding religion, Ideology, Gender, or political views.

www.injazzat.com

# THE COMPANY PROJECTS

## 2018

## Introduction

Injazzat Real Estate Development company (Injazzat) maintains its leading position in the real estate market as it continues achieving successful returns on its investment supported by a clear vision and commitment to its strategy of looking and investing in feasible opportunities while diversifying its portfolio.

The company developed its operations based on income-generating investments and transformed the non-income generating assets to income generating assets. The company has also invested in a number of assets and is looking to develop those assets to increase their income and values.

Injazzat's diversification in its assets geographically and by sector, resulted in positioning it amongst the leading real estate development companies in the region.

You will find below a brief about Injazzat's assets in its markets of operation.

## LOCAL LEVEL

Injazzat seeks continuously to invest in the local market to achieve more success and profits. Injazzat offers an array of integrated real estate services that includes selling services, land trading and real estate project management services. The company is working on finalizing the best Real Estate opportunities in the local market to achieve the required returns in accordance with the company strategy.

## Al Dajeej Building

Al Dajeej Building is located in Al Farwaniya area and was acquired by the Company to become one of the Company's income generating assets. It reinforces the Company's strategy for local expansion, specifically in properties with regular returns. It's entire area of 10,634 sqm. has been leased through long-term government contracts.

## Ahmed Al Jaber Land

Injazzat has acquired an old building located in Sharq, Ahmed Al Jaber street with a size of 300 sqm with a construction rate of nearly 1000%, the development of the land will be demolished into an office building consisting of 2 basements, a ground floor, a mezzanine, and 22 floors making up 6,633 sqm. Investment will be funded during the construction of the building.

## GCC COUNTRIES

In order to diversify its portfolio regionally and internationally, Injazzat has always looked at expanding and growing into new and existing markets.  As part of the company's interest to play a key role in shaping the built environment and contributing to the development of its neighbors in the GCC, Injazzat has grown its portfolio in the United Arab Emirates and Bahrain by developing and investing in projects along with key strategic partners.

## KINGDOM OF BAHRAIN

### Dhow Real Estate Company

Dhow Real Estate Company was established in 1999 as a Bahraini company fully owned by Injazzat, to invest, develop and trade in Bahrain's real estate sector. It has realized fine gains from a number of sales and acquisition deals. The Company enhanced the list of its income-generating assets through developing warehouses at the Bahrain Investment Wharf Project. In addition, the Company still owns several strategically located plots in the areas of Al Seef, and Ras Zuwaid.

### Al Yal Residence Tower

Al Dow Real Estate Company and First Real Estate Company developed Al Yal Residence Tower in equal partnership. The tower consists of 25 floors with 130 fully furnished residential units plus 2 restaurants, gym, children play ground and swimming pool. The tower overlooks the sea and is situated in one of the most strategic locations in Al Seef area, just few meters from the city center and Al Seef mall.

### Al Yal Real Estate Company

Al Yal Real Estate was established in equal partnership with Al Dow Real Estate Company in the Kingdom of Bahrain, to merge and develop three pieces of land owned by the two companies at Al Seef area. The company began developing its largest project (Catamaran Residence) which consists of two residential buildings comprising 583 apartments with a commercial complex in the middle. The project also includes 3 floors that hold up to 600 parking spaces. They contain restaurants and commercial shops. One of the two towers will be for sale and the other will be kept for rent.

### First Real Estate Company

Injazzat Real Estate Development Company established "First Real Estate Company" in the Kingdom of Bahrain in 2002, shared equally with a qualified Bahraini investor who is an expert in both the construction and real estate fields, to build and develop residential complexes.

In 2005, the Company underwent restructuring and its capital was increased to BD 30 million through adding some new assets and allowing the entry of new investors. The Company maintains the quality and performance of its current income-generating assets that enjoy high occupancy rates. In parallel, it works to continuously invest in new promising future projects through the development of its lands and assets situated in strategic locations.

## UNITED ARAB EMIRATES

### Al Qouz Labour Camp Building 604 - 606

The company owns 50% of Al Qouz residential building through its subsidiary known as Al Bateel along with another investor. The project is located in Dubai, covering a land area of 100,136 sq.ft. and a total built-up area of approximately 227,000 sq.ft. The project avails 656 rooms in addition to 24 offices and 8 retail shops.

### Al Qouz Labour Camp Building (596)

Al Qouz labor camp 596 covers a land area of approximately 50,051 sq.ft. and a total built-up area of approximately 113,700 sq.ft. It comprises 328 rooms, in addition to 12 offices and 4 commercial shops. The building is fully leased.

### Al Muhaisna Labour Camp Building

The building is located in Al Muhaisna region, Dubai, and covers a total land area of about approximately 56,914 sq.ft. It comprises two floors and 399 rooms and 2 commercial units. The company purchased this project in equal partnership with First Real Estate Company-Kingdom of Bahrain.

### Al Sanbouk Real Estate Company Buildings

In association with strategic local investors, the Company acquired Al Sanbouk Real Estate Company which owned 2 plots of lands in Jabal Ali – Dubai, covering a total area of 41,980 sq.ft. The plots were developed into a labour accommodation buildings with a total built-up area of 159,000 sqf providing a total room of 380. The buildings was completed in 2016 and is fully leased.

### Dunes Village, Dubai Investment Park

Injazzat through it's subsidiary (Al Bateel Real Estate Company) acquired two residential buildings at Dubai Investment Park each building consists of 52 residential apartments each and covers an area of 108,298 sq.ft. Both buildings are fully leased.

### Jabal Ali Women Labour Camp Project

The company acquired 2 plots of land with a total area of 50,000 sq.ft and with a built up area of 201,190 sq.ft. The project will accommodate 345 rooms located in Jabal Ali – Dubai and will be developed into a labor camp for women. The project is expected to be completed in 2018.

### Jabal Ali Commercial Project

The company acquired a land in Jabal Ali through it's subsidiary (Al Bateel Real Estate Company) with an area of 24,372 square feet. The objective is to build a commercial complex to serve the residents in the area. The project is expected be completed in 2019.

### Al Jadaf

The company started the development of a residential project purchased in Al Jadaf district (in close proximity to Dubai International Airport & Dubai Financial District). The project comprises of a commercial ground floor, 12 floors with 100 residential units, and includes 3 basements. The construction work on this project is expected to be completed by 2019.

### Injazzat Residence – Al Maydan

The company purchased a 30,000 sq.ft. plot in Al Maydan, United Arab Emirates with the aim of developing a residential building with a total built-up area of 107,000 sq.ft. and the project consist of 53 apartments and 3 retail shops it's expected to be complete by 2019.


### INTERNATIONAL LEVEL

As for the international operations, Injazzat's investments are diversified in several different countries in Europe & North America through direct investment in lands and real estate projects under developments or in real estate funds. Injazzat's portfolio in these markets are managed by experts in real estate and asset management who became Injazzat's trusted partners.

## FRANCE

### Alpha Investment Fund

The Company established and submitted a real estate fund, in compliance with the Islamic Shari'ah principles, known as the Alpha Investment Fund. Its investment strategy targets profitable office buildings and warehouses across the North and South eastern French cities between Paris in the north and Marseilles in the south. The Fund manager has started liquidating the assets, and is expected to exit from the fund in 2019.

## GERMANY

### Hitachi Power Building Project

The Company invested 50% of its shares in to an office building in Duisburg City, Germany, located in the Düsseldorf Governorate. Duisburg is one of the major world centers well-known for steel production and trade. It is famous for its river port, Duisport, the largest and most important river port in Europe. The building consists of 8 floors and two basement floors dedicated for car parking. The total area of the building is 218,000sq.ft. The building is leased entirely to Hitachi Power Systems Company under a long-term lease and generates high periodic returns.

## UNITED STATES OF AMERICA

### 399 Jefferson, Parsippany

Injazzat owns a significant share of an office building located in Parsippany, New Jersey, USA, covering a total area of 206,155 sq.ft. The building is fully leased. This investment is generating an attractive return and sustainable cash flows to the company.

### Denton Harvest Hill

The Company acquired a plot of raw land in Texas in 2016 with the intention of building infrastructure and splitting the land to about 150 plots and then resell the plots as residential lands prior to development.

### Preston Creek

The Company owns a significant share in a commercial complex located in Plano City. The project is fully leased and is considered income generating since 2014.

### Valpak Building

The company owns a majority share in the Valpak building as an industrial factory  & commercial offices in the city of St. Petersburg suburb of the city of Tampa, located in Florida, USA. The building has an area of 465,000 square feet and is fully leased with a long-term lease creating stable cash flows for the company.

إنجازات
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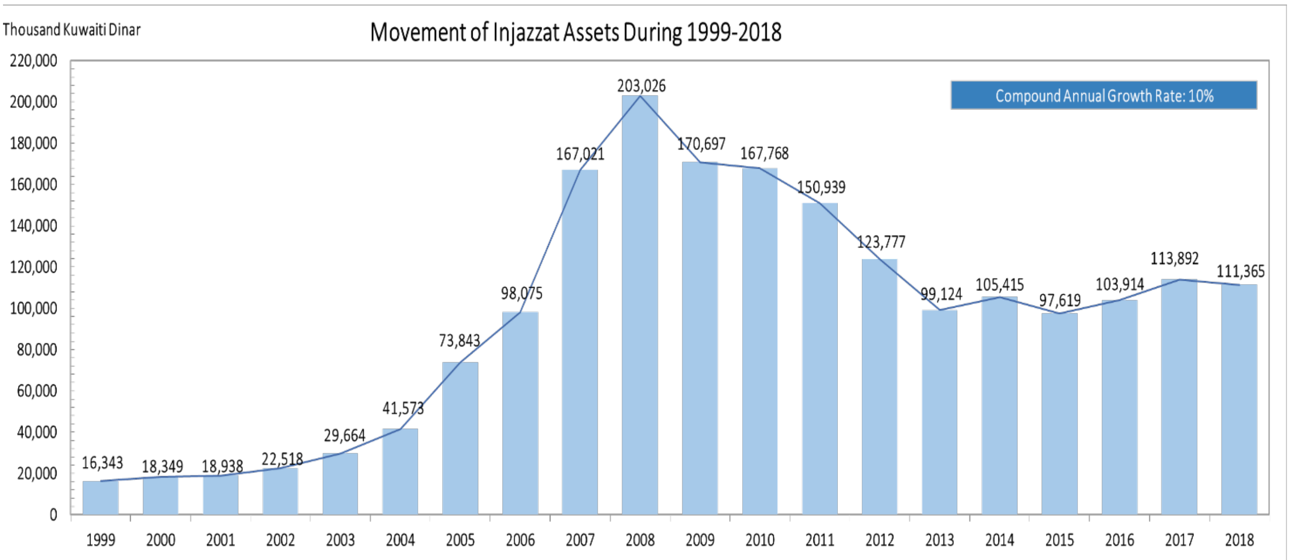
# INJAZZAT'S MESSAGE ON ITS 20th ANNIVERSARY

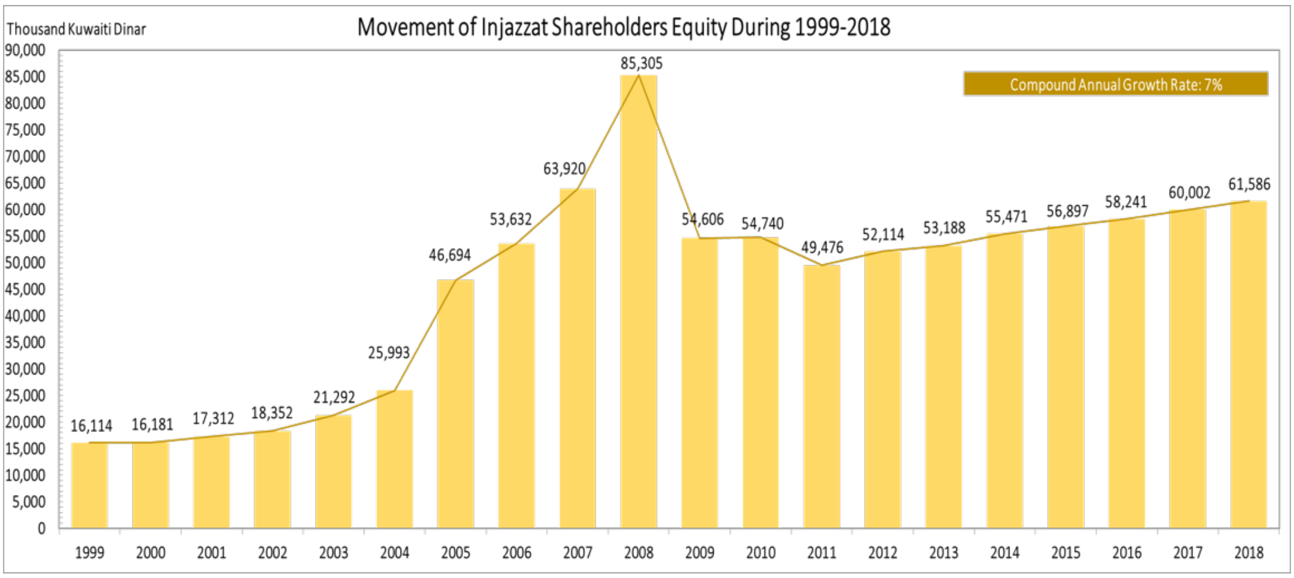
## 2018

It's been 20 years since Injazzat Real Estate Development Company, formerly known as Al-Mal Real Estate Company, was founded; 20 years of achievements and success, during which the company has never veered off course, despite the temptations of years of prosperity and the setbacks through the years of crises. Injazzat was established with a capital of KD 15 million, and at the end of its first fiscal year in 1999, its assets were valued at KD 16.3 million. In 2018, the company has seen its assets grow almost 6.8 times that number to reach KD 111.4 million as shown in Chart 1. Similarly, the company closed its first fiscal year in 1999 with its shareholders' equity valued at KD 16.1 million, and has seen this figure grow at the end of 2018 about 3.7 times to reach KD 61.6 million as shown in Chart 2. The company's share capital has increased to KD 34.6 million by the end of 2018, compared to KD 15 million at the end of its first fiscal year as mentioned above, i.e. increased by KD 19.6 million, of which KD 3.6 million was contributed by the shareholders and the remaining KD 16 million came in the form of bonus shares.

## Graph (1)

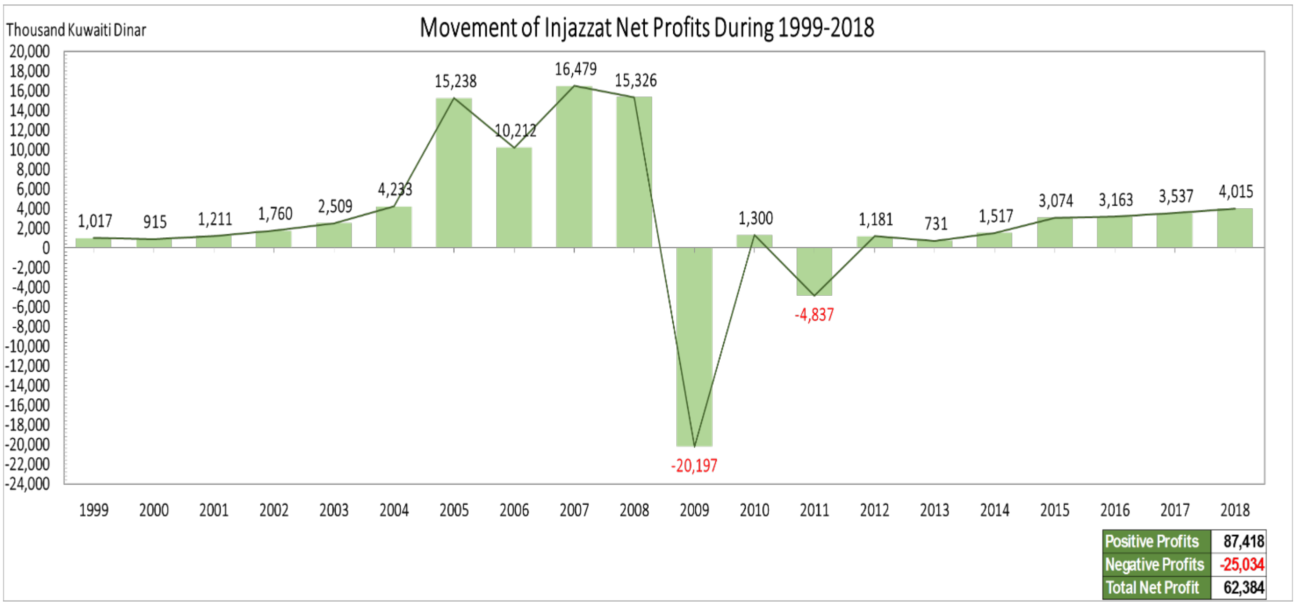



## Graph (2)



This is definitely a success story based on professionalism and commitment to the company's vision and mission, even by shifting the company's strategy from buying and trading real estate assets, to purchasing and developing lands in accordance with the needs of the target customers and in compliance of highest real estate development and contracting standards. Over the years, the company was committed to maximizing returns and reducing risks through geographical diversification of assets, all the while developing its real estate portfolio in conformity with the non-stop changes in market trends. Other factors, such as the thorough understanding of the requirements of each market; the high quality of its real estate assets and the tendency to provide a conservative assessment of the value of its assets at the end of each fiscal year, were decisive for the company overcoming the repercussions of the financial crunch in 2008 and the subsequent regional crises, including the 2009 Dubai financial crisis, the 2011 Arab Spring, and the fall of oil prices since fall of 2014. Pressures culminated in 2008 when the company's bank and non-bank debt amounted to about KD 112.6 million, and as the Dubai crisis started to unfold in that year, the company, heavily affected by the losses in such a major market, had seen most of its profits made during the boom years consumed. Yet, thanks to a quick rescue plan and the high value of its assets, Injazzat managed to reach the best possible settlement with creditors in subsequent years, reducing its total debt to KD 40.6 million by 2015, as shown in Chart 3. This came at a time when the company's assets started to return to normal growth rates, pushing up the company's debt to about KD 49.7 million, of which KD 40 million were loans by the end of the 2018 fiscal year. Yet, the debts remained at around 81% of the shareholders' equity. Moreover, Injazzat has seen a positive growth of shareholders' equity, three years before a debt settlement plan comes into action, as the company's assets has registered consistent positive growth starting from 2012 onwards.

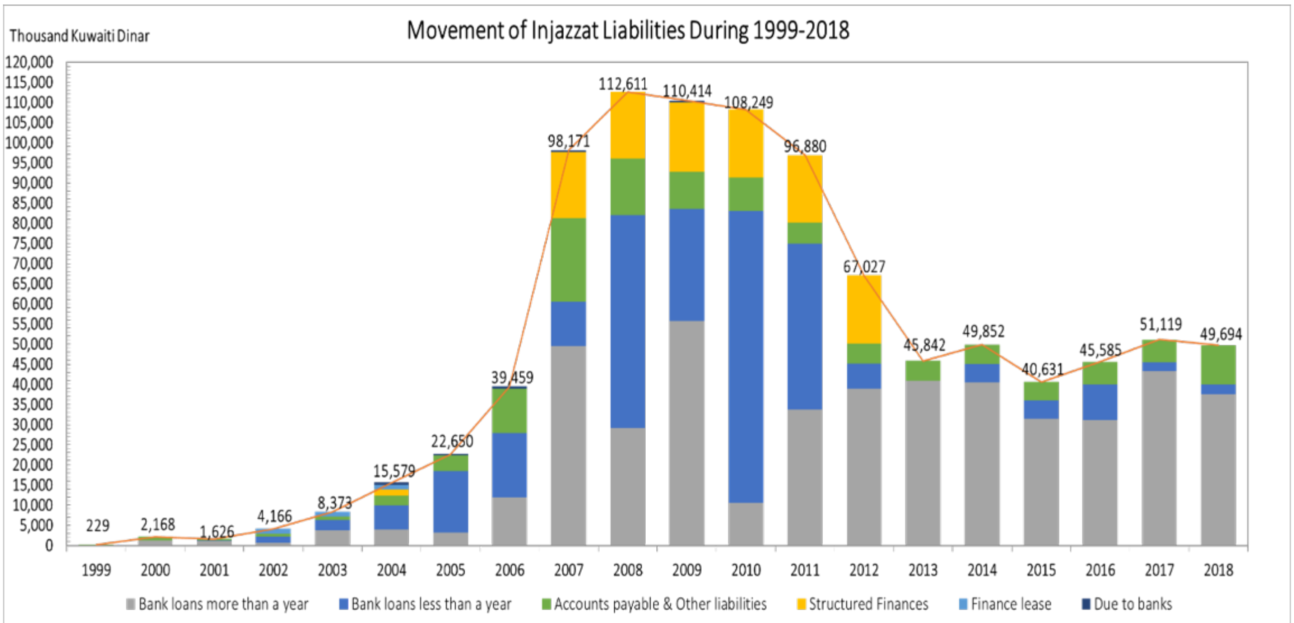
## Graph (3)




Injazzat is fully aware that it operates in a general environment characterized by more adverse winds and less favorable business conditions. Regional changes from geopolitical violence to fragile economic growth have left their impact on all markets, and the losses suffered by the region's countries due to the sharp drop in oil prices is a case in point. As a result, the company continues to increase the proportion of its income-producing, under-development real estate assets within its portfolio. This trend has been reflected in the increase of these assets from 23% in 2012 to about 75% in 2018, ensuring stable, fixed income for the company supported by a tendency to undertake a conservative assessment of its assets to build up a safety net for worst-case scenarios. Yet, while observing the conservative assessment, the book value per share was estimated at around 183 Kuwaiti fils at the end of 2018.

Consequently, the company's net profit over the past 20 years has amounted to KD 87.4 million, minus a loss of KD 25 million in the two years of crisis, bringing the final net profit to KD 62.4 million as shown in Chart 4. This outcome has prompted the company to distribute cash dividends of KD 29.5 million since its establishment. In parallel, shareholders' equity has increased to KD 61.6 million, of which KD 16 million was distributed in the form of bonus shares as noted earlier to increase the company's share capital. In other words, shareholders who had subscribed for the company's shares since its foundation and held on to them until the end of 2018 are now owning a little more than twice the shares without any extra payment. Additional equity of shares are estimated at KD 27 million, i.e. the difference between the company's share capital and net shareholders' equity, not to mention the cash dividends as mentioned earlier.

## Graph (4)




In summary, the company, in its 20-year journey, has gone through times of prosperity and times of hardships. Indeed, it managed to generate high returns in times of economic stability and growth, stand firm in the face of successive crises, and emerged even stronger, regaining its growth and learning from the lessons of the past. And for those who subscribed for the company's shares upon its establishment and held on to their stocks, their patience has paid off with an internal rate of return of 12.5% at the market price of 86 fils by the end of 2018. If the return on the book value per share is set at 183 fils as of December 31, 2018, the internal rate of return would stand at 16.3%. Thus, the administration, represented by both the Board of Directors and the Executive Management, is proud to have demonstrated that Injazzat is living up to its name, meaning "achievements" in Arabic, and vows to maintain the sustainability and development of the company's growing portfolio.

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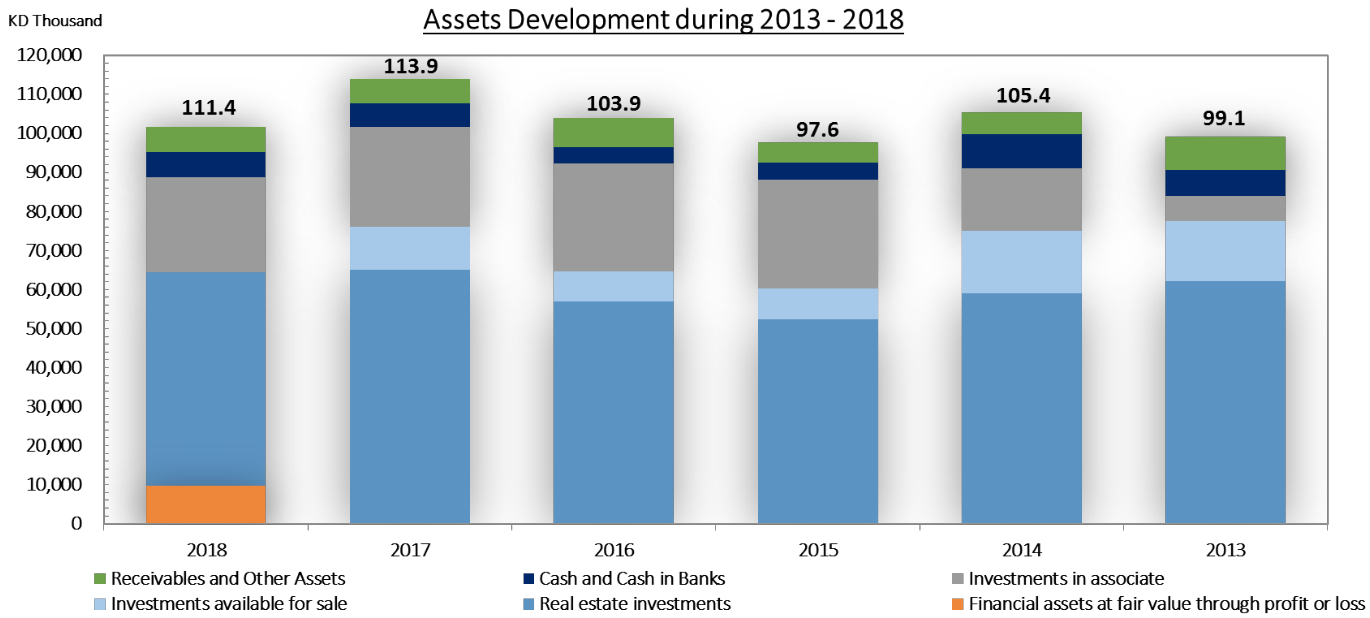
# FINANCIAL ANALYSIS FOR

## 2018

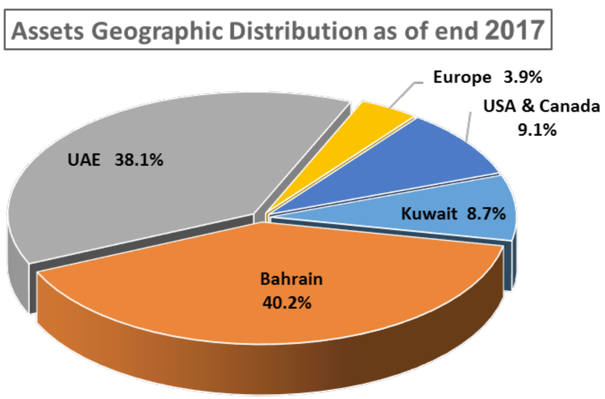
# FINANCIAL POSITION

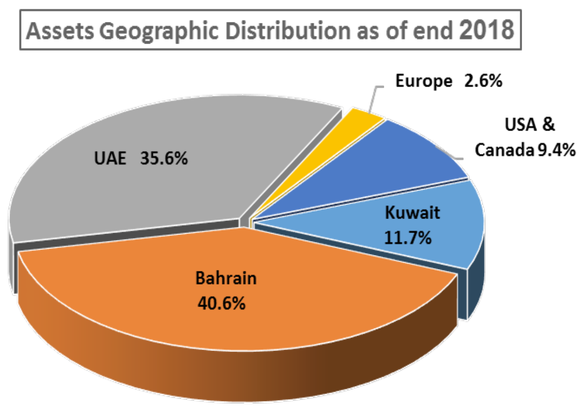
By the end of 2018, Injazzat Real Estate Development Company K.S.C total assets scored KD 111.4 million, declining by KD 2.5 million or by 2.2% from its level in 2017 when it scored KD 113.9 million. Most of the main balance sheet items witnessed a decline at varying rates. Item of Investment properties, which has the biggest weight of total assets, reached KD 64.5 million (57.9% of total assets), decreasing from about KD 65.1 million (57.2% of total assets) in 2017 due to the selling of some investment properties. Item of Investment in associates also decreased reaching KD 24.2 million (21.8% of total assets), compared with KD 25.6 million (22.5% of total assets) in 2017. As of adoption of the new International Financial Reporting Standard 9 (IFRS 9), available for sale financial assets amounting KD 10.9 million were all reclassified into financial assets at fair value through profit or loss with an amount of KD 9.7 million.

On the other hand, item of cash and bank balances increased by KD 538.6 thousand scoring KD 6.6 million (5.9% of total assets), compared with KD 6.0 million in 2017 (5.3% of total assets). Item of account receivables and other assets increased to reach KD 6.3 million (5.6% of total assets), compared with KD 6.2 million (5.5% of total assets).




Geographically, the company assets were distributed as follows: 11.7% in the local market, 76.2% in the regional market (GCC), and 12.1% in the American & European markets, compared with 8.7%, 78.3% and 13.0% respectively in 2017.



Company liabilities decreased by KD 1.4 million or by 2.8% and scored KD 49.7 million, compared with KD 51.1 million at the end of 2017. The Company used revenues from the sale of some investment properties as well as cash inflows from operating activities to decrease its debt. Accordingly, total loans and borrowings from banks scored KD 40 million distributed between short term of KD 2.5 million and long term of KD 37.5 million, compared with KD 45.4 million by the end of 2017. That means that they decreased by KD 5.4 million, and forming about 35.9% of total equity & liabilities. Some available for sale assets, investment properties, and investments in associates were used as a collateral against those loans. Total assets to total liabilities ratio scored 44.6% in 2018 compared with 44.9% in 2017. Total liabilities to total shareholder's equity ratio decreased to 80.7% against 85.2% in 2017.

Total equity attributable to owners of the Parent Company reached about KD 61.6 million, compared to about KD 60 million in 2017, indicating an increase by KD 1.6 million, or 2.6%, due to the rise in retained earnings item. Therefore, Company's book value per share scored 183 fils in 2018 compared to 178 fils in 2017.

# FINANCIAL PERFORMANCE

The company achieved net profits (after excluding non-controlling interests) of KD 4 million at the end of 2018 with a 13.5% increase compared to 2017 end of year profits of KD 3.5 million. During the year, the Company was able to generate profits through rental revenues by about KD 3.9 million at the end of 2018, compared to KD 3.7 million by the end of 2017. The company also achieved revenues from share of results of associates by about KD 2.8 million compared to KD 1.9 million in 2017. Management fees also increased by about KD 150 thousand, reaching KD 550 thousand. As of adoption of new IFRS 9, item of distribution income from financial assets at fair value through profit or loss, scored KD 1.3 million, compared to KD 896 thousand from distribution income from available for sale financial assets in 2017.

On the other hand, administrative and general expenses (including staff costs) decreased by KD 27 thousand to reach KD 1.20 million, compared to KD 1.23 million in 2017. Real estate operating costs increased by KD 172 thousand to reach KD 1.07 million compared to KD 898 thousand in 2017. Finance costs increased to about KD 2.34 million, an increase by KD 51 thousand, compared to KD 2.29 million. As a result, the company had achieved net profits (before tax) of about KD 4.37 million, an increase by KD 585 thousand versus KD 3.79 million in 2017.

The basic and diluted earnings per share of the Parent Company's shareholders were 11.92 fils, compared to 10.49 fils per share in 2017. The board of directors suggested cash dividend by 7% for year ended December 2018.

Most of the company's financial ratios rose; Return of Assets (ROA) increased to 3.7% compared to 3.1% in 2017, and Return on Equity (ROE) rose to 6.5% compared to 5.9% in 2017. The following table shows that all performance ratios were better than the average performance of a sample of real estate companies listed on Kuwait Stock Exchange (Boursa Kuwait).

| Ratios | Injazzat Real Estate | Real Estate Sector |
|---|---|---|
| Price/Earnings per share (P/E) | 7.2 | 16.1 |
| Price/Book Value (P/B) | 0.5 | 0.6 |
| Return On Equity (ROE) % | 6.5% | 3.8% |
| Return On Assets (ROA) % | 3.7% | 2.0% |

*Average of 46 real estate listed companies with available financial statements calculated on annual basis.

# THE SHARE PERFORMANCE ANALYSIS – 2018

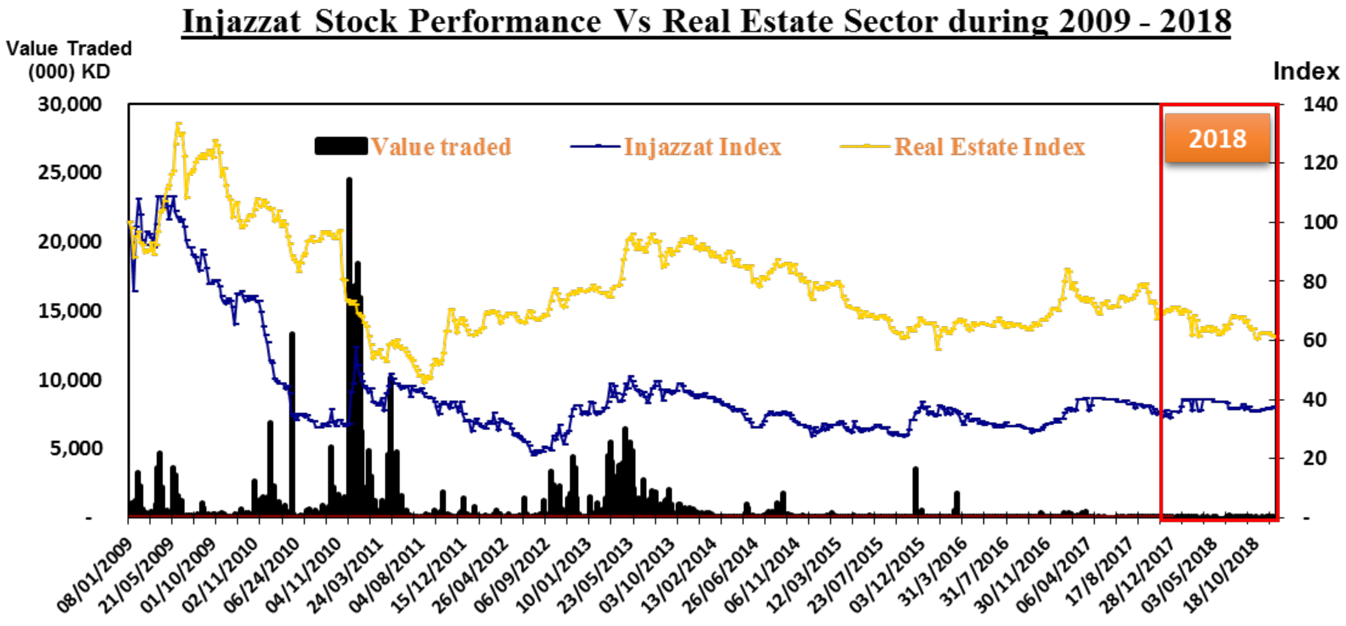
Boursa Kuwait performance in 2018 was less active than in 2017, key indicators dropped including traded value, traded volume, and number of transactions. Meanwhile, the market index rose according to Alshall Index by 10.9% compared to end of 2017. The Company index increased by 4.4%, compared to a decreased in real estate sector by 13.8% during the same period. As of end of 2018, the company's share price closed at 86 fils, compared to its closing price of 82 fils at the end of 2017. The market price per share reached its highest level in 2018 at 92 fils, whereas the share price was at its lowest level at 82 fils.

The following graph displays development of the company share price during the last 10 years (2009-2018). The Company's share performance and the real estate sector's performance indicate a drop by 62.6% and 38.8% respectively during the period.

| Year 2018 | Traded Value (KD million) | Number of Transactions '000 | Traded Volume (Million Shares) | Total Market Capitalization (KD Million) |
|---|---|---|---|---|
| **Injazzat R.E. Co.** | 0.4 | 0.2 | 5.1 | 29.7 |
| **Real Estate Sector** | 228.1 | 116.0 | 4,283.4 | 1,773.7 |
| **Total Market** | 4,128.2 | 925.4 | 21,373.7 | 29,187.2 |
| **% of Real Estate Sector** | **2.0%** | **2.0%** | **1.0%** | **7.1%** |
| **% of Total Market** | **10.0%** | **20.0%** | **20.0%** | **1.0%** |

Company's traded shares value during 2018 scored KD 0.4 million with an average daily trading value of KD 1.7 thousand, decreased by 86.9% compared with 2017 when it scored KD 13.3 thousand per day. Value of traded shares represented 0.2% of total real estate sector's trading value during 2018. While volume of traded shared scored about 5.1 million shares, an average daily trading of 20.6 thousand shares, a drop by 86.6% compared to 153.5 thousand shares in 2017.

The share turnover ratio was 1.4% compared with 11.6% in 2017, and it is considered less than the real estate sector's share turnover during 2018 which was 12.9%. Total market capitalization of the company rose to KD 29.7 million, representing 1.7% of the total market capitalization of the real estate sector. It's also higher by KD 1.2 million than the achieved market cap at the end of 2017 which resulted at KD 28.5 million.



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Consolidated financial statements and independent auditors' report

# INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

# AND SUBSIDIARIES

31st December 2017

# CONTENTS

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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

## Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of Injazzat Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

*Basis for Opinion*

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

*Key Audit Matters*

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

*Valuation of investment properties*

Investment properties represent 58% of the Group's total assets and are measured at fair value. Management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis. The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Key Audit Matters (continued)*

*Valuation of investment properties (continued)*

Given the size of investment properties and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter.

Our audit procedures included, among others, the following:

- We assessed the competence, independence and integrity of the external valuers.
- We assessed whether the valuation techniques applied by the external valuers are appropriate for the purpose of the valuation of the underlying investment property.
- We assessed the reasonableness of the key estimates and assumptions used by the external valuers.
- We performed audit procedures on a sample of the investment properties, to test the appropriateness of data provided to the external valuers.
- We assessed the adequacy and the appropriateness of the Group's disclosures concerning investment properties in Notes 8 and 20 to the consolidated financial statements.

*Valuation of financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss represent 9% of the Group's total assets which are measured at fair value as disclosed in Note 7 to the consolidated financial statements.

Fair values of financial assets at fair value through profit or loss are measured using valuation techniques that include unobservable inputs, hence requiring management to make significant judgements and estimates in determining the fair value. For these reasons, this is considered as a key audit matter.

Our audit procedures included, among others, the following:

- For valuations which used significant unobservable inputs, we assessed the assumptions and inputs used in the valuations, to the extent possible to independent sources, and externally available market data to evaluate its relevance, completeness and accuracy.
- We assessed the adequacy and the appropriateness of the Group's disclosures concerning the fair value measurement of financial assets at fair value through profit or loss and the sensitivity to changes in unobservable inputs in Notes 7 and 20 to the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

*Other information included in the Group's 2018 Annual Report*

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

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.

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Al-Qatami, Al-Aiban & Partners

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)*
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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 auditors' 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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Grant Thornton
Al-Qatami, Al-Aiban & Partners

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INJAZZAT REAL ESTATE DEVELOPMENT COMPANY K.S.C.P. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Auditors' 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 auditors' 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 as amended, and its executive regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business or financial position of the Parent Company.

| | |
|---|---|
| BADER A. AL-ABDULJADER | ANWAR Y. AL-QATAMI, F.C.C.A. |
| LICENCE NO. 207-A | LICENCE NO. 50-A |
| EY | GRANT THORNTON |
| AL AIBAN, AL OSAIMI & PARTNERS | AL-QATAMI, AL-AIBAN & PARTNERS |

31 January 2019
Kuwait

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | 2018 KD | 2017 KD |
|---|---|---|---|
| **INCOME** | | | |
| Rental income | | **3,912,780** | 3,673,934 |
| Valuation loss from investment properties | 8 | **(417,480)** | (350,964) |
| Gain on sale of investment properties | 8 | **523,978** | 1,629,529 |
| Change in fair value of financial assets at fair value through profit or loss | | **93,077** | - |
| Distribution income from financial assets at fair value through profit or loss | | **1,347,691** | - |
| Distribution income from available-for-sale financial assets | | **-** | 896,025 |
| Management fees | | **550,317** | 400,622 |
| Share of results of associates accounted for using the equity method | 9 | **2,750,838** | 1,880,036 |
| Gain on a bargain purchase of a subsidiary | 1.2 | **-** | 45,351 |
| Other income | 3 | **361,050** | 391,968 |
| Net foreign exchange differences | | **39,003** | (188,028) |
| | | **9,161,254** | 8,378,473 |
| **EXPENSES** | | | |
| Real estate operating costs | | **(1,070,652)** | (898,149) |
| Staff costs | | **(861,691)** | (881,610) |
| Depreciation | | **(17,211)** | (13,375) |
| Administrative expenses | | **(338,840)** | (346,032) |
| Consultancy and professional fees | | **(156,956)** | (159,957) |
| Finance costs | | **(2,341,999)** | (2,290,716) |
| | | **(4,787,349)** | (4,589,839) |
| **Profit for the year before tax and directors' remuneration** | | **4,373,905** | 3,788,634 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **(38,810)** | (25,503) |
| National Labour Support Tax (NLST) | | **(109,814)** | (94,602) |
| Zakat | | **(43,926)** | (29,223) |
| Directors' remuneration | 16 | **(105,000)** | (105,000) |
| **PROFIT FOR THE YEAR** | | **4,076,355** | 3,534,306 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **4,014,596** | 3,536,886 |
| Non-controlling interests | | **61,759** | (2,580) |
| **PROFIT FOR THE YEAR** | | **4,076,355** | 3,534,306 |
| **BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | 4 | **11.92 Fils** | 10.49 Fils |

The attached notes set out on pages 51 to 88 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| **PROFIT FOR THE YEAR** | **4,076,355** | 3,534,306 |
| **Other comprehensive loss:** | | |
| *Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:* | | |
| Share of other comprehensive income of associates accounted for using the equity method | **(712,709)** | - |
| Changes in the fair value of available-for-sale financial assets (IAS 39) | **-** | 84,420 |
| Net exchange differences on translation of foreign operations | **27,595** | (173,183) |
| **Other comprehensive loss for the year** | **(685,114)** | (88,763) |
| **Total comprehensive income for the year** | **3,391,241** | 3,445,543 |
| **Total comprehensive income for the year** | | |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **3,329,482** | 3,448,123 |
| Non-controlling interests | **61,759** | (2,580) |
| **Total comprehensive income for the year** | **3,391,241** | 3,445,543 |

The attached notes set out on pages 51 to 88 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2018 KD | 2017 KD |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 5 | 6,571,267 | 6,032,705 |
| Accounts receivable and other assets | 6 | 6,261,915 | 6,219,413 |
| Available-for-sale financial assets | 7 | - | 10,891,376 |
| Financial assets at fair value through profit or loss | 7 | 9,721,768 | - |
| Investment properties | 8 | 64,487,981 | 65,109,210 |
| Investment in associates | 9 | 24,230,450 | 25,608,949 |
| Furniture and equipment | | 91,408 | 30,818 |
| **TOTAL ASSETS** | | 111,364,789 | 113,892,471 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | 34,564,860 | 34,564,860 |
| Share premium | 10 | 2,869,130 | 2,869,130 |
| Statutory reserve | 11 | 8,842,498 | 8,411,283 |
| Voluntary reserve | 12 | 4,421,250 | 4,205,643 |
| Treasury shares | 13 | (922,378) | (865,740) |
| Treasury shares reserve | | 4,396,905 | 4,396,905 |
| Foreign currency translation reserve | | 1,455,901 | 1,428,306 |
| Fair value reserve | | (712,709) | 100,614 |
| Retained earnings | | 6,670,223 | 4,890,904 |
| **Equity attributable to equity holders of the Parent Company** | | 61,585,680 | 60,001,905 |
| Non-controlling interests | | 85,248 | 2,772,053 |
| **Total equity** | | 61,670,928 | 62,773,958 |
| **Liabilities** | | | |
| Accounts payable and other liabilities | 14 | 9,726,702 | 5,751,354 |
| Loans and borrowings | 15 | 39,967,159 | 45,367,159 |
| **Total liabilities** | | 49,693,861 | 51,118,513 |
| **TOTAL EQUITY AND LIABILITIES** | | 111,364,789 | 113,892,471 |

Faisal Fahad Al-Shaya
Chairman

Mohammad Ibrahim Al-Farhan
Chief Executive Officer

The attached notes set out on pages 51 to 88 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Foreign currency translation reserve KD* | *Fair value reserve KD* | *Retained earnings KD* | *Sub-total KD* | *Non-controlling interests KD* | *Total KD* |
| At 1 January 2018 | 34,564,860 | 2,869,130 | 8,411,283 | 4,205,643 | (865,740) | 4,396,905 | 1,428,306 | 100,614 | 4,890,904 | 60,001,905 | 2,772,053 | 62,773,958 |
| Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.2) | - | - | - | - | - | - | - | (100,614) | 100,614 | - | - | - |
| At 1 January 2018 (restated) | 34,564,860 | 2,869,130 | 8,411,283 | 4,205,643 | (865,740) | 4,396,905 | 1,428,306 | - | 4,991,518 | 60,001,905 | 2,772,053 | 62,773,958 |
| Profit for the year | - | - | - | - | - | - | - | - | 4,014,596 | 4,014,596 | 61,759 | 4,076,355 |
| Other comprehensive income (loss) for the year | - | - | - | - | - | - | 27,595 | (712,709) | - | (685,114) | - | (685,114) |
| Total comprehensive loss for the year | - | - | - | - | - | - | 27,595 | (712,709) | 4,014,596 | 3,329,482 | 61,759 | 3,391,241 |
| Purchase of treasury shares | - | - | - | - | (56,638) | - | - | - | - | (56,638) | - | (56,638) |
| Acquisition of non-controlling interests without change in control (Note 1.2) | - | - | - | - | - | - | - | - | 330,564 | 330,564 | (2,748,564) | (2,418,000) |
| Cash dividends (Note 10) | - | - | - | - | - | - | - | - | (2,019,633) | (2,019,633) | - | (2,019,633) |
| Transferred to reserve | - | - | 431,215 | 215,607 | - | - | - | - | (646,822) | - | - | - |
| **At 31 December 2018** | **34,564,860** | **2,869,130** | **8,842,498** | **4,421,250** | **(922,378)** | **4,396,905** | **1,455,901** | **(712,709)** | **6,670,223** | **61,585,680** | **85,248** | **61,670,928** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Foreign currency translation reserve KD* | *Fair value reserve KD* | *Retained earnings KD* | *Sub-total KD* | *Non-controlling interests KD* | *Total KD* |
| At 1 January 2017 | 34,564,860 | 2,869,130 | 8,032,161 | 4,016,082 | (865,338) | 4,396,905 | 1,601,489 | 16,194 | 3,609,085 | 58,240,568 | 88,493 | 58,329,061 |
| Profit for the year | - | - | - | - | - | - | - | - | 3,536,886 | 3,536,886 | (2,580) | 3,534,306 |
| Other comprehensive (loss) income for the year | - | - | - | - | - | - | (173,183) | 84,420 | - | (88,763) | - | (88,763) |
| Total comprehensive loss for the year | - | - | - | - | - | - | (173,183) | 84,420 | 3,536,886 | 3,448,123 | (2,580) | 3,445,543 |
| Purchase of treasury shares | - | - | - | - | (402) | - | - | - | - | (402) | - | (402) |
| Cash dividends (Note 10) | - | - | - | - | - | - | - | - | (1,686,384) | (1,686,384) | - | (1,686,384) |
| Non-controlling interests arising on step acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | - | 2,686,140 | 2,686,140 |
| Transferred to reserves | - | - | 379,122 | 189,561 | - | - | - | - | (568,683) | - | - | - |
| At 31 December 2017 | 34,564,860 | 2,869,130 | 8,411,283 | 4,205,643 | (865,740) | 4,396,905 | 1,428,306 | 100,614 | 4,890,904 | 60,001,905 | 2,772,053 | 62,773,958 |

The attached notes set out on pages 51 to 88 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | *2018* *KD* | *2017* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit for the year before tax and directors' remuneration** | | **4,373,905** | 3,788,634 |
| *Adjustments to reconcile profit before tax to net cash flows:* | | | |
| Change in fair value of investment properties | 8 | **417,480** | 350,964 |
| Gain on sale of investment properties | 8 | **(523,978)** | (1,629,529) |
| Change in fair value of financial assets at fair value through profit or loss | | **(93,077)** | - |
| Distribution income from financial assets at fair value through profit or loss | | **(1,347,691)** | - |
| Distribution income from available-for-sale financial assets | | **-** | (896,025) |
| Share of results of associates | 9 | **(2,750,838)** | (1,880,036) |
| Gain on bargain purchase of a subsidiary | | **-** | (45,351) |
| Depreciation | | **17,211** | 13,375 |
| Interest income | | **(302,823)** | (371,812) |
| Finance costs | | **2,341,999** | 2,290,716 |
| | | **2,132,188** | 1,620,936 |
| *Working capital adjustments:* | | | |
| Accounts receivable and other assets | | **98,619** | 1,294,442 |
| Accounts payable and other liabilities | | **1,045,548** | (98,634) |
| **Net cash from operating activities** | | **3,276,355** | 2,816,744 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of furniture and equipment | | **(77,801)** | (15,546) |
| Purchase of available-for-sale financial assets | | **-** | (5,468,842) |
| Proceeds from capital redemption / sale of available-for-sale financial assets | | **-** | 2,413,129 |
| Proceeds from capital redemption of financial assets at fair value through profit or loss | | **1,262,685** | - |
| Distribution income received from financial assets at fair value through profit or loss | | **1,347,691** | - |
| Distribution income received from available-for-sale financial assets | | **-** | 896,025 |
| Purchase of investment properties | 8 | **(4,783,503)** | (1,704,711) |
| Capital expenditure incurred on investment properties | 8 | **(6,799,630)** | (2,000,358) |
| Proceeds from sale of investment properties | 8 | **12,460,523** | 8,296,764 |
| Additions to interest in associates | 9 | **(1,528,421)** | (1,094,881) |
| Proceeds from capital redemption of investment in associates | 9 | **4,533,264** | 1,126,282 |
| Acquisition of subsidiary, net of cash acquired | 1.2 | **-** | (2,374,182) |
| Consideration paid to acquire non-controlling interests in a subsidiary | 1.2 | **(2,418,000)** | - |
| Dividends received from an associate | 9 | **371,031** | 619,806 |
| Interest income received | | **161,702** | 320,073 |
| Advances received on sale of investment property | | **2,482,170** | - |
| **Net cash from investing activities** | | **7,011,711** | 1,013,559 |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid to equity holders of the Parent Company | 10 | **(2,005,604)** | (1,633,717) |
| Proceeds from loans and borrowings | 15 | **3,500,000** | 4,820,000 |
| Repayment of loans and borrowings | 15 | **(8,900,000)** | (2,820,000) |
| Purchase of treasury shares | | **(56,638)** | (402) |
| Finance costs paid | | **(2,287,262)** | (2,275,846) |
| **Net cash used in financing activities** | | **(9,749,504)** | (1,909,965) |
| **INCREASE IN CASH AND BANK BALANCES** | | **538,562** | 1,920,338 |
| Cash and bank balances at beginning of the year | 5 | **6,032,705** | 4,112,367 |
| **CASH AND BANK BALANCES AT END OF THE YEAR** | 5 | **6,571,267** | 6,032,705 |

The attached notes set out on pages 51 to 88 form part of these consolidated financial statements.

## 1 CORPORATE AND GROUP INFORMATION

### 1.1 CORPORARE INFORMATION

The consolidated financial statements of Injazzat Real Estate Development Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 28 January 2019. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a Kuwaiti shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded in Kuwait Stock Exchange ("Boursa Kuwait"). The Parent Company's registered address is P.O. Box 970, Safat 13010, State of Kuwait.

The Group is principally engaged in real estate activities. The primary objectives of the Parent Company is as follows:

- Ownership, purchasing, sale and development of all kinds of investment properties with exception to residential properties inside and outside the state of Kuwait for the benefit of the Parent Company and on the behalf of others.
- Ownership and sale of financial assets, bonds relating to real estate companies for the benefit of the Parent Company alone inside and outside the State of Kuwait.
- Preparation and delivery of studies relating to real estate activities.
- Maintenance activities relating to the properties owned by the Parent Company including civil, mechanical, electrical works and all required works to sustain the state of the properties.
- Organisation of real estate conventions relating to the Parent Company's projects in accordance with the regulations set out by the Ministry of Commerce.
- Hosting auctions.
- Ownership of malls and residential complexes and managing them.
- Ownership of hotels, health clubs, tourism related facilities and leasing and releasing them.
- Management, operating and leasing all types of investment properties.
- Establishment and management of real estate investment funds.
- It is permitted for the Parent Company to invest in managed funds managed by specialised managers.

Information on the Group structure is provided in Note 1.2 below. Information on other related part relationships of the Group is provided in Note 16.

### 1.2 GROUP INFORMATION

#### a) Subsidiaries

The consolidated financial statements of the Group include:

| Name | Country of incorporation | % equity interest 2018 | % equity interest 2017 | Principal activities |
|---|---|---|---|---|
| Injazzat Entertainment Enterprises – K.S.C. (Closed) [1] | Kuwait | **99%** | 99% | Entertainment and tourism |
| Injazzat Real Estate – France | France | **100%** | 100% | Real estate |
| Dhow Real Estate Company - B.S.C. (Closed) | Bahrain | **100%** | 100% | Real estate |
| Al-Dhow International Real Estate Company – K.S.C. (Closed) [1] | Kuwait | **99%** | 99% | Real estate |
| Al Mal and Aqar Joint Project Company – W.L.L. | Kuwait | **100%** | 100% | Real estate |
| Al Quoz International General Trading and Contracting Company – W.L.L. | Kuwait | **60%** | 60% | General trading and contracting |
| Injazzat Lusail Company – W.L.L. [1] | Kuwait | **99%** | 99% | General trading and contracting |
| Amwaj Real Estate Development Company – K.S.C. (Closed) [1] | Kuwait | **99%** | 99% | Real estate |
| Al Bateel Real Estate Company – L.L.C. | UAE | **100%** | 100% | Real estate |
| Injazzat S.A.R.L. | Luxemburg | **100%** | 100% | Real estate |
| Al Barsha Real Estate Company K.S.C (Closed) [2] | Kuwait | **100%** | 70% | Real estate |

## 1 CORPORATE AND GROUP INFORMATION (continued)

### 1.2 GROUP INFORMATION (continued)

### a) Subsidiaries (continued)

[1] The remaining shares are held by other related parties on behalf of the Parent Company and therefore the effective holding of the Group in these subsidiaries is 100%.

[2] The Group has pledged 34.5% equity interest in the subsidiary to fulfil collateral requirements. Refer to Note 15 for further details.

***Transactions with non-controlling interests***

- On 6 December 2017, the Group acquired an additional 35% of the shares and voting interests in Al Barsha Real Estate Company K.S.C (Closed), a previously held associate. As a result, the Group's equity interest in the entity increased from 35% to 70%, obtaining control of the entity effective from that date. The resulting gain from this transaction amounting to KD 45,351 is recognised in profit or loss as a gain on a bargain purchase during the year ended 31 December 2017.

- On 16 April 2018, the Group acquired an additional 30% interest of the issued shares of the underlying subsidiary for KD 2,418,000. Immediately prior to the purchase, the carrying amount of the existing 30% non-controlling interest in the subsidiary was KD 2,748,564. The Group recognised a decrease in non-controlling interests of KD 2,748,564 and an increase in equity attributable to equity holders of the Parent Company of KD 330,564. The effect on the equity attributable to the equity holders of the Parent Company during the year ended 31 December 2018 is summarised as follows:

| | *2018*<br>*KD* |
|---|---|
| Carrying amount of non-controlling interests acquired | **2,748,564** |
| Consideration paid to non-controlling interests | **(2,418,000)** |
| Increase in equity attributable to equity holders of the Company | **330,564** |

### b) Associates

Set out below are the associates of the Group as at 31 December. For more details, refer to Note 9.

| Name | Country of incorporation | % equity interest *2018* | % equity interest *2017* | Principal activities |
|---|---|---|---|---|
| Ikarus Real Estate Company K.S.C. (Closed) | Kuwait | **45%** | 45% | Real estate |
| Al Yal Real Estate Company W.L.L. | Bahrain | **50%** | 50% | Real estate |
| Al Sanbook Real Estate L.L.C. | UAE | **25%** | 25% | Real estate |
| Al Yal Seef Residence Company W.L.L. | Bahrain | **50%** | 50% | Real estate |
| Cancorp Duisburg S.A.R.L. | Luxemburg | **50%** | 50% | Real estate |
| First Real Estate Company – B.S.C. (Closed) | Bahrain | **28%** | 28% | Real estate |
| Urban Quarter Company W.L.L | Bahrain | **50%** | 50% | Real estate |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and financial investments that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional of the Parent Company.

The Group presents its statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 19.4

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

**New and amended standards and interpretations**
The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**IFRS 9 - *Financial Instruments***
The Group adopted IFRS 9 *Financial Instruments* on its effective date of 1 January 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

*a) Classification and measurement*
Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), Amortised Cost (AC), or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

With respect to receivables, the Group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model which is to hold the financial asset to collect the contractual cash flows which meets the SPPI criterion, these instruments shall be classified as at amortised cost under IFRS 9. Therefore, reclassification for these instruments is not required on initial adoption of IFRS 9.

Financial assets at fair value through profit or loss comprise equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at fair value through other comprehensive income. Under IAS 39, the Group's equity securities were classified as AFS financial assets. As a result of the change in classification of the Group's equity investments, the AFS reserve related to those investments that were previously presented under accumulated OCI, was reclassified to retained earnings at the date of initial application.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**IFRS 9 - *Financial Instruments (continued)***

*a) Classification and measurement (continued)*

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

*(b) Impairment*

IFRS 9 requires the Group to record ECLs on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the fund to credit risk, this amendment has not had a material impact on the consolidated financial statements. The Group only holds trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and therefore has adopted an approach similar to the simplified approach to ECLs.

*(c) Hedge accounting*

The Group has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

**IFRS 15 - *Revenue from Contracts with Customers***

The Group adopted IFRS 15 *Revenue from Contracts with Customers* on its effective date of 1 January 2018. IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

IFRS 15 did not have a significant impact on the Group's accounting policies as revenue streams mainly comprise of rental income and management fees.

***Amendments to IAS 40 - Transfers of Investment Property***

The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the Group's investment property.

**Transitional provisions**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

**Transitional provisions (continued)**

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation of certain financial assets as measured at FVTPL.

The total impact on the Group's retained earnings and fair reserve as at 1 January 2018 is as follows:

| | *Retained earnings KD* | *Fair value reserve KD* |
|---|---|---|
| Closing balance under IAS 39 (31 December 2017) | 4,890,904 | 100,614 |
| *Impact on reclassification and re-measurements:* | | |
| Financial assets reclassified from AFS to FVTPL | 100,614 | (100,614) |
| Opening balance under IFRS 9 on date of initial application at 1 January 2018 | **4,991,518** | - |

**Classification of financial instruments on the date of initial application of IFRS 9**
The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018, however, the Group has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39. The following table shows reconciliation of original measurement categories and carrying amount in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial instruments as at 1 January 2018.

| | *Original classification under IAS 39* | *New classification under IFRS 9* | *Original carrying amount under IAS 39 KD* | *Transition adjustments KD* | *New carrying amount under IFRS 9 KD* |
|---|---|---|---|---|---|
| Cash and bank balances | Loans and receivables | Amortised cost | 6,032,705 | - | 6,032,705 |
| Accounts receivable and other assets | Loans and receivables | Amortised cost | 5,649,813 | - | 5,649,813 |
| Financial investments | AFS | FVTPL | 10,891,376 | (10,891,376) | - |
| Financial investments | FVTPL | FVTPL | - | 10,891,376 | 10,891,376 |
| **Total financial assets** | | | **22,573,894** | - | **22,573,894** |

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

The application of the ECL model under IFRS 9 has not resulted in any changes to the carrying amounts of the Group's amortised cost financial assets.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 16 - *Leases***
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

**Amendments to IAS 28: *Long-term interests in associates and joint ventures***
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES

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

**Basis of consolidation**
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**Business combinations and acquisition of non-controlling interests**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations and acquisition of non-controlling interests (continued)**
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

**Interest in investment in associates**
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Interest in investment in associates (continued)**
After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Foreign currencies**
The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

*Group companies*
On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation**

*Kuwait Foundation for the Advancement of Sciences (KFAS)*
The contribution to KFAS is calculated at 1% of the profit for the year attributable to the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

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

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

*Sales tax*
Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- When receivables and payables are stated with the amount of sales tax included the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Events after the reporting period**
If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

**Furniture and equipment**
Furniture and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Furniture and fixtures and equipment | 3 - 5 years |

The carrying values of furniture and equipment 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, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of furniture and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture and equipment. All other expenditure is recognised in profit or loss as the expense is incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Furniture and equipment (continued)**
An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of furniture and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Depreciation of these assets commences when the assets are ready for their intended use.

**Investment properties**
Investment properties are measured initially at cost, including transaction costs. 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 profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

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

**Cash and short-term deposits**
Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

**Treasury shares**
The Group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. 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 reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Earnings per share (EPS)**
Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Dividend distribution**
The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the companies law, a distribution is authorised when it is approved by the Shareholders at the annual general assembly. A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date

**End of service benefits**
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.

**Leases**
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

*Group as a lessee*
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

*Group as a lessor*
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fiduciary assets**
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

**Revenue recognition**

*Rental income*
The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

*Interest income*
Interest income is recognised using the effective interest rate method.

*Fee income*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission and asset management fees.

*Dividend income*
Dividend income is recognised when the right to receive payment is established.

**Financial instruments**
In the current period the Group has adopted IFRS 9 *Financial Instruments*. See section 2.2 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

***a) Recognition and initial measurement***
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

***b) Classification and subsequent measurement***
*Financial assets - Policy effective from 1 January 2018 (IFRS 9)*
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***b) Classification and subsequent measurement (continued)***

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

***Financial assets – Business model assessment: Policy applicable from 1 January 2018***

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

***Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***b) Classification and subsequent measurement (continued)***

***Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018 (continued)***
A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

***Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018***

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses arerecognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

***Financial assets – Policy applicable before 1 January 2018***

| | |
|---|---|
| Financial assets at fair value through profit or loss | Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss. |
| Held-to-maturity financial assets | Measured at amortised cost using the effective interest method. |
| Loans and receivables | Measured at amortised cost using the effective interest method. |
| Available-for-sale financial assets (AFS) | Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss. |

***c) Derecognition***

***Financial assets***
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***c) Derecognition***
The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

***Financial liabilities***
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

***d) Offsetting***
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**Impairment of financial assets**

*Policy applicable from 1 January 2018*
The Group previously recognized impairment losses on financial assets based on incurred loss model, under IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For bank balances, trade receivables and other receivables, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the balances and the Group's economic environment.

The management considers a financial asset in default when the contractual payments are 365 days past due. However, in certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

*Policy applicable before 1 January 2018*
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

*Policy applicable before 1 January 2018 (continued)*
In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**Impairment of non-financial assets**
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement**
Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

***Classification of real estate properties***
Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Significant judgments (continued)**

***Classification of financial assets***

*Effective from 1 January 2018 (IFRS 9)*
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

*Effective before 1 January 2018 (IAS 39)*
Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, held to maturity, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

***Control assessment of structured entities***
The Group has ownership interest in structured entities. Structured entities encompass a wide variety of often complex arrangements and require a detailed and specific assessment of the investee's relevant activities and the investor's rights to make decisions about them. Further considerations shall be made as to whether the Group has the practical ability to direct the relevant activities, its exposure to variable returns, and ability to affect those returns by exercising its power over the investee. Reaching a conclusion may involve significant judgement.

**Estimates and assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Impairment of associates***
Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

***Impairment of financial assets at amortised cost***

*Effective before 1 January 2018 (IAS 39)*
An estimate of the collectible amount of trade receivables 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.

*Effective from 1 January 2018 (IFRS 9)*
The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

### 2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Significant judgments (continued)**

***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 technological obsolescence that may change the utility of certain software and IT equipment.

***Business combinations***
Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquirees' future profitability.

***Valuation of investment properties***
The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 8.

***Fair value measurement***
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## 3 OTHER INCOME

| | ***2018*** ***KD*** | *2017* *KD* |
|---|---|---|
| Interest income on bank balances | **86,286** | 10,500 |
| Interest income on accounts receivable | **216,537** | 361,312 |
| Other income | **58,227** | 20,156 |
| | **361,050** | 391,968 |

## 4 EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

| | ***2018*** | *2017* |
|---|---|---|
| Profit for the year attributable to the equity holders of the Parent Company (KD) | **4,014,596** | 3,536,886 |
| Weighted average number of shares outstanding during the year (excluding treasury shares) | **336,676,142** | 337,274,297 |
| Basic and diluted EPS (fils) | **11.92** | 10.49 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5 CASH AND BANK BALANCES

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Cash on hand | **82** | 1,144 |
| Current accounts | **6,501,458** | 5,899,556 |
| Call accounts | **69,727** | 132,005 |
| | **6,571,267** | 6,032,705 |

Call accounts earn interest at commercial rates varying between of 0.5% to 1% (2017: 0.5% to 1%) per annum.

## 6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| **Financial assets** | | |
| Receivables from related parties (Note 16) | **210,346** | 267,243 |
| Receivables on sale of investment property * | **3,930,103** | 3,909,915 |
| Other receivables | **755,077** | 553,787 |
| | **4,895,526** | 4,730,945 |
| **Non-financial assets** | | |
| Advances to contractors | **363,138** | 2,965 |
| Advance payment to purchase investment property | **-** | 825,293 |
| Prepayments and other assets | **1,003,251** | 660,210 |
| | **1,366,389** | 1,488,468 |
| | **6,261,915** | 6,219,413 |

Receivables on sale of investment property yield interest at 5.6% (2017: 5.25%) per annum. For further information on terms and conditions relating to related party receivables, refer to Note 16.

The classes within accounts receivable do not contain impaired assets.

The maximum exposure to credit risk exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

See Note 19.2 on credit risk of accounts receivables, which explains how the Group manages and measures credit quality of receivables that are neither past due nor impaired.

## 7 FINANCIAL INVESTMENTS

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Financial assets at fair value through profit or loss (IFRS 9): | | |
| - Unquoted equity securities | **9,721,768** | - |
| Available-for-sale financial assets (IAS 39): | | |
| - Unquoted equity securities | **-** | 10,891,376 |
| | **9,721,768** | 10,891,376 |

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 20.

**7 FINANCIAL INVESTMENTS (continued)**

Unquoted equity securities represent the Group's interests in unconsolidated structured entities. The Group concluded that it does not control, and therefore should not consolidate the structured entities.

**Details of nature, purpose and activities of unconsolidated structured entities**
The Group's is principally involved with structured entities through investments in and sponsoring structured entities that provide specialised investment opportunities. Structures entities are generally used by the Group to finance the purchase of investment properties by issuing debt and equity securities that are collateralised by the assets held in the structured entities.

**Risk associated with unconsolidated structured entities**
Management assessed that the Group's maximum exposure to loss for its involvement with structured entities at the reporting date is the carrying value of these interests. In making the assessment, considerations were made to commitments and guarantees related to these interests and the Group's contractual and non-contractual involvement.

The following table summarises the net asset value of interests in unconsolidated structured entities recognised in the statement of financial position of the Group, as at 31 December:

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Assets | **44,435,799** | 30,311,128 |
| Liabilities | **30,179,018** | 17,874,872 |
| Net assets | **14,256,781** | 12,436,256 |

The structured entities had no contingent liabilities or capital commitments as at 31 December 2017 or 2018.

The Group's interests in unconsolidated structured entities are located in the following geographical locations:

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| United States of America | **14,256,781** | 12,436,256 |
| | **14,256,781** | 12,436,256 |

The following table illustrates the details of income and expenses included in the consolidated statement of profit or loss for structure entities.

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Change in fair value of financial assets at fair value through profit or loss | **93,077** | - |
| Distribution income from financial assets at fair value through profit or loss | **1,347,691** | 896,025 |

## 8 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| At 1 January | **65,109,210** | 56,876,218 |
| Capital expenditure on owned property [1] | **6,799,630** | 2,000,358 |
| Additions [1] | **4,783,503** | 1,704,711 |
| Acquisitions arising from business combinations | **-** | 11,936,545 |
| Disposals [2] | **(11,936,545)** | (6,667,235) |
| Change in fair value [3] | **(417,480)** | (350,964) |
| Foreign currency translation adjustments | **149,663** | (390,423) |
| At 31 December | **64,487,981** | 65,109,210 |

The Group's investment properties are located in the following geographical locations:

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Kuwait | **11,100,000** | 8,250,000 |
| Other GCC countries | **53,387,981** | 56,859,210 |
| | **64,487,981** | 65,109,210 |

[1] During the year ended 31 December 2018, the Group acquired land for an amount of KD 4,783,503 (2017: KD 1,704,711). Further the Group incurred development expenditure of KD 6,799,630 during the year then ended (2017: KD 2,000,358).

[2] During the year ended 31 December 2018, the Group sold certain investment properties with an aggregate carrying value of KD 11,936,545 (2017: KD 6,667,235) for a total consideration of KD 12,460,523 (2017: 8,296,764 KD) resulting in a realised gain on disposal of KD 523,978 (2017: KD 1,629,529).

[3] The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed a decrease of 417,480 compared to its carrying values as at 31 December 2018 (2017: KD 350,964).

Investment properties with a carrying value of KD 29,545,124 (2017: KD 34,134,563) are pledged as security to fulfil collateral requirements of certain bank borrowings (Note 15).

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2018 and 2017 are disclosed in Note 20.2

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 9 INVESTMENT IN ASSOCIATES

**Summarised financial information for associates**

The following table illustrates the summarised financial information of the associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts.

| | *Al Yal Seef Residence Company W.L.L. KD* | *Al Yal Real Estate Company W.L.L. KD* | *First Real Estate Company B.S.C. (Closed) KD* | *Cancorp Duisburg S.A.R.L. KD* | *Individually immaterial associates KD* | *Total 2018 KD* | *Total 2017 KD* |
|---|---|---|---|---|---|---|---|
| Current assets | 220,794 | 2,375,819 | 15,422,018 | 188,382 | 2,674,330 | 20,881,343 | 13,208,115 |
| Non-current assets | - | 17,907,953 | 47,219,300 | 13,731,876 | 7,123,828 | 85,982,957 | 109,774,771 |
| Current liabilities | 69,913 | 2,464,388 | 5,498,919 | 8,648,649 | 6,891,773 | 23,573,642 | 31,764,739 |
| Non-current liabilities | - | - | 17,710,179 | - | - | 17,710,179 | 20,406,597 |
| **Equity** | 150,881 | 17,819,384 | 39,432,220 | 5,271,609 | 2,906,385 | 65,580,479 | 70,811,550 |
| **Ownership interest held by the Group** | 50% | 50% | 27.812% | 50% | - | - | - |
| **Group's carrying amount of the investment** | 75,440 | 8,909,692 | 10,966,889 | 2,635,805 | 1,642,624 | 24,230,450 | 25,608,949 |
| Revenue | 477,409 | 3,637,749 | 5,897,492 | 1,103,979 | 1,251,531 | 12,368,160 | 8,647,901 |
| Profit for the year | 160,462 | 3,595,002 | 2,103,653 | 310,270 | 749,384 | 6,918,771 | 4,364,929 |
| Other comprehensive income for the year | - | - | 2,562,596 | - | - | 2,562,596 | - |
| Total comprehensive income for the year | 160,462 | 3,595,002 | 4,666,249 | 310,270 | 749,384 | 9,481,367 | 4,364,929 |
| Dividends received from associates | - | - | 371,031 | - | - | 371,031 | 619,806 |
| **Group's share of results for the year** | 80,231 | 1,797,501 | 585,068 | 155,135 | 132,903 | 2,750,838 | 1,880,036 |

The associates had no contingent liabilities or capital commitments as at 31 December 2017 or 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 9 INVESTMENT IN ASSOCIATES (continued)

A reconciliation of the above summarised financial information to the carrying amount of the associates is set out below:

| | *Al Yal Seef Residence Company W.L.L.* | *Al Yal Real Estate Company W.L.L.* | *First Real Estate Company B.S.C. (Closed)* | *Cancorp Duisburg S.A.R.L.* | *Individually immaterial associates* | *2018* | *2017* |
|---|---|---|---|---|---|---|---|
| | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* | *KD* |
| **Reconciliation to carrying amounts:** | | | | | | | |
| Opening net assets 1 January | 4,129,079 | 5,553,651 | 11,394,801 | 2,930,199 | 1,601,219 | 25,608,949 | 27,677,215 |
| Acquistions | - | 1,519,550 | 8,871 | - | - | 1,528,421 | 1,094,881 |
| Reclassification / disposals | - | - | - | - | - | - | (3,133,831) |
| Return of capital | (4,108,765) | - | - | (332,170) | (92,329) | (4,533,264) | (1,126,282) |
| Profit for the period | 80,231 | 1,797,501 | 585,068 | 155,135 | 132,903 | 2,750,838 | 1,880,036 |
| Other comprehensive income | - | - | (712,709) | - | - | (712,709) | - |
| Foreign currency | (25,105) | 38,990 | 61,889 | (117,359) | 831 | (40,754) | (163,264) |
| Dividends received | - | - | (371,031) | - | - | (371,031) | (619,806) |
| Closing net assets | 75,440 | 8,909,692 | 10,966,889 | 2,635,805 | 1,642,624 | 24,230,450 | 25,608,949 |

The above associates are private entities that are not listed on any stock exchange; therefore, no quoted market prices are available for its shares.

As at 31 December 2018, investment in associates with a carrying amount of KD 19,741,741 (2017: KD 16,948,452) are pledged as security to fulfil collateral requirements of certain bank borrowings (Note 15).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10 SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS

*(a) Share capital*

| | *Number of shares* | | *Authorised, issued and fully paid* | |
|---|---|---|---|---|
| | ***2018*** | *2017* | ***2018 KD*** | *2017 KD* |
| Shares of 100 fils each (paid in cash) | **345,648,600** | 345,648,600 | **34,564,860** | 34,564,860 |

*(b) Share premium*

Share premium is not available for distribution.

*(c) Distributions made and proposed*

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| **Cash dividends on ordinary shares declared and paid:** | | |
| Final dividend for 2017: 6 fils per share (2016: 5 fils per share) | **2,019,633** | 1,686,384 |

Proposed cash dividend for 2018: 7 fils per share (2017: 6 fils per share), proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

## 11 STATUTORY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

## 12 VOLUNTARY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before tax and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

## 13 TREASURY SHARES

| | ***2018*** | *2017* |
|---|---|---|
| Number of treasury shares | **9,043,143** | 8,376,824 |
| Percentage of total outstanding shares (%) | **2.62%** | 2.42% |
| Cost (KD) | **922,378** | 865,740 |
| Market value (KD) | **777,710** | 645,015 |

Reserves equivalent to the cost of the treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 14 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Accounts payable | **2,201,517** | 1,064,050 |
| Payables to an associate (Note 16) | **962,471** | 1,060,776 |
| Rental income received in advance | **620,536** | 369,393 |
| Advance received on sale of investment property | **2,482,170** | - |
| Accrued expenses | **1,896,874** | 1,836,612 |
| Other liabilities | **1,563,134** | 1,420,523 |
| | **9,726,702** | 5,751,354 |

For explanations on the Group's liquidity risk management processes, refer to Note 19.2.

## 15 LOANS AND BORROWINGS

| | *Currency* | *Effective interest rate (EIR)* | *2018* *KD* | *2017* *KD* |
|---|---|---|---|---|
| Secured bank loans | Kuwaiti Dinar | CBK discount rate +2.25% - 2.6% | **39,967,159** | 45,367,159 |

The Group's secured bank loans comprise:

- Loans of KD 41,967,000 obtained from a local financial institution repayable over a period of 7 years starting from 15 July 2018 and maturing in 15 July 2024. The effective interest rate on the outstanding loan balance as at 31 December 2018 was 5.60% (2017: 5.73%) per annum.
- Loan of KD 3,500,000 was advanced during the year and repaid in full (2017: loan of KD 3,400,000 assumed on business combination was repaid in full during the current year). The loan carries an effective interest rate at 5.25% (2017: 5%) per annum.

Bank loans are secured over certain of the Group's investment properties, investment in associates and subsidiaries.

At 31 December 2018, the Group had available KD 5,000,000 (2017: KD 5,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Information about the Group's exposure to interest rate and liquidity risks is included in Note 19.

**Changes in liabilities arising from financing activities:**
The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| **As at 1 January** | **45,367,159** | 39,967,159 |
| *Cash flows:* | | |
| Repayments of borrowings | **(8,900,000)** | (2,820,000) |
| Proceeds from borrowings | **3,500,000** | 4,820,000 |
| *Non-cash movements:* | | |
| Arising on a business combination | - | 3,400,000 |
| **As at 31 December** | **39,967,159** | 45,367,159 |

## 16 RELATED PARTY DISCLOSURES

The Group's related parties include its associates, major shareholders, entities under common control, directors and executive officers of the Group, close members of their families and entities of which they 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 Group's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| **Consolidated statement of financial position** | | |
| Receivables from related parties | | |
| Associate | **88,630** | 25,015 |
| Other related parties | **121,716** | 242,228 |
| | **210,346** | 267,243 |
| Receivables on sale of investment property (Note 6) | **3,930,103** | 3,909,915 |
| Payables to related parties | | |
| Associate | **962,471** | 1,060,776 |
| **Consolidated statement of profit or loss** | | |
| Management fees | **36,877** | 135,046 |
| Interest income on accounts receivable | **216,537** | 361,312 |
| | **253,414** | 496,358 |

**Terms and conditions of transactions with related parties**

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Except for receivables on sale of investment property (Note 6), outstanding balances at the year-end are unsecured, interest free and repayable on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts due from related parties (2017: KD Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**Transactions with key management personnel**

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows.

| | ***2018 KD*** | *2017 KD* |
|---|---|---|
| *Compensation of key management personnel of the Group* | | |
| Salaries and short-term benefits | **403,042** | 287,998 |
| Employees' end of service benefits | **48,462** | 35,048 |
| | **451,504** | 323,046 |

The Board of Directors of the Parent Company proposed a directors' remuneration of KD 105,000 for the year ended 31 December 2018 (2017: KD 105,000). This proposal is subject to the approval of the shareholders at the AGM of the Parent Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 17 SEGMENT INFORMATION

For management purposes, the Group's activities are concentrated in real estate investments. The Group's activities are concentrated in two main segments: Domestic (Kuwait) and International (Kingdom of Bahrain, United Arab Emirates, Saudi Arabia, Qatar, Europe and USA). The Group's segments information are as follows:

| | **31 December 2018** | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | ***Domestic KD*** | ***International KD*** | ***Total KD*** | *Domestic KD* | *International KD* | *Total KD* |
| Rental income | **430,580** | **3,482,200** | **3,912,780** | 539,780 | 3,134,154 | 3,673,934 |
| Valuation loss from investment properties | **(315,123)** | **(102,357)** | **(417,480)** | (250,000) | (100,964) | (350,964) |
| Gain on sale of investment properties | **-** | **523,978** | **523,978** | - | 1,629,529 | 1,629,529 |
| Change in fair value of financial assets at fair value through profit or loss | **-** | **93,077** | **93,077** | - | - | - |
| Distribution income from financial assets at fair value through profit or loss | **-** | **1,347,691** | **1,347,691** | - | - | - |
| Distribution income from available-for-sale financial assets | **-** | **-** | **-** | - | 896,025 | 896,025 |
| Management fees | **18,997** | **531,320** | **550,317** | 15,000 | 385,622 | 400,622 |
| Share of results of associates | **(63,140)** | **2,813,978** | **2,750,838** | 857,206 | 1,022,830 | 1,880,036 |
| Gain on a bargain purchase of a subsidiary | **-** | **-** | **-** | 45,351 | - | 45,351 |
| Other income | **302,823** | **58,227** | **361,050** | 389,330 | 2,638 | 391,968 |
| Net foreign exchange differences | **39,003** | **-** | **39,003** | (188,028) | - | (188,028) |
| Total income | **413,140** | **8,748,114** | **9,161,254** | 1,408,639 | 6,969,834 | 8,378,473 |
| Real estate operating costs | **(90,925)** | **(979,727)** | **(1,070,652)** | (63,359) | (834,790) | (898,149) |
| Staff costs | **(861,691)** | **-** | **(861,691)** | (881,610) | - | (881,610) |
| Depreciation | **(4,919)** | **(12,292)** | **(17,211)** | (8,442) | (4,933) | (13,375) |
| Administrative expenses | **(338,840)** | **-** | **(338,840)** | (346,032) | - | (346,032) |
| Consultancy and professional fees | **(120,217)** | **(36,739)** | **(156,956)** | (153,046) | (6,911) | (159,957) |
| Finance costs | **(2,340,983)** | **(1,016)** | **(2,341,999)** | (2,288,979) | (1,737) | (2,290,716) |
| Taxation | **(192,550)** | **-** | **(192,550)** | (149,328) | - | (149,328) |
| Directors' remuneration | **(105,000)** | **-** | **(105,000)** | (105,000) | - | (105,000) |
| Total expenses | **(4,055,125)** | **(1,029,774)** | **(5,084,899)** | (3,995,796) | (848,371) | (4,844,167) |
| (Loss)/profit for the year | **(3,641,985)** | **7,718,340** | **4,076,355** | (2,587,157) | 6,121,463 | 3,534,306 |
| Total assets | **22,065,250** | **89,299,539** | **111,364,789** | 17,674,358 | 96,218,113 | 113,892,471 |
| Total liabilities | **43,583,079** | **6,110,782** | **49,693,861** | 49,740,253 | 1,378,260 | 51,118,513 |

## 18 FIDUCIARY ASSETS

Fiduciary assets comprise investments managed on behalf of clients amounting to KD 33,563 (2017: KD 46,540).

## 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, comprise bank borrowings and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include receivables and cash and balances that derive directly from its operations. The Group also holds investments in equity instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Parent Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

### 19.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include bank borrowings, other payables, cash at bank, equity investments and certain accounts receivable.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**a) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets and liabilities at the reporting date:

| | ***2018 Equivalent KD*** | *2017 Equivalent KD* |
|---|---|---|
| US Dollar (USD) | **4,133,202** | 294,416 |
| Euro | **(95,273)** | (322,425) |
| GB Pounds Sterling (GBP) | **12,485** | 651,188 |
| UAE Dirham (AED) | **824,531** | 682,532 |

## 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 19.1 Market risk (continued)

### b) Foreign currency risk (continued)

*Foreign currency sensitivity*
The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

| *Currency* | *Change in exchange rate* | *Effect on profit or loss (relates to monetary financial assets and liabilities)* | |
|---|---|---|---|
| | | ***2018*** | *2017* |
| | | ***KD*** | *KD* |
| USD | +10% | **413,320** | 29,442 |
| Euro | +10% | **(9,527)** | (32,242) |
| GBP | +10% | **1,249** | 65,119 |
| AED | +10% | **82,453** | 68,253 |

There is no sensitivity effect on OCI as the Group has no assets classified as fair value through OCI or designated hedging instruments.

An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

### b) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. During 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in KD.

The Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

*Exposure to interest rate risk*
The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows.

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD*** | *KD* |
| **Fixed-rate instruments** | | |
| Financial assets | **2,706,467** | 855,959 |
| Financial liabilities | - | - |
| | **2,706,467** | 855,959 |
| **Variable-rate instruments** | | |
| Financial assets | **3,930,103** | 3,909,915 |
| Financial liabilities | **(39,967,159)** | (45,367,159) |
| | **(36,037,056)** | (41,457,244) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**19.1 Market risk (continued)**

**c) Equity price risk**

The Group's equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities.

The Group holds strategic equity investments in structured entities, which complement the Group's operations (Note 7). Management believes that the exposure to market price risk from this activity is acceptable in the Group's circumstances.

At the reporting date, the exposure to unquoted equity investments at fair value was KD 9,721,768. Sensitivity analyses of these investments have been provided in Note 20.

**19.2 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

| | ***2018*** ***KD*** | *2017* *KD* |
|---|---|---|
| Bank balances (Note 5) | **6,571,185** | 6,031,561 |
| Accounts receivable and other assets (Note 6) | **4,895,526** | 4,730,945 |
| | **11,466,711** | 10,762,506 |

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 365 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. As at the reporting date, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

As at 31 December 2018, the maximum credit exposure to a single counterparty amounted to KD 3,909,915 (2017: KD 3,908,597), which is secured by an investment property registered in the name of the Group and can be called upon if the counterparty is in default under the terms of the agreement.

**19.3 Concentration of financial assets**

The distribution of financial assets by geographic region for 2018 and 2017 is as follows:

| | ***GCC*** ***KD*** | ***Europe*** ***KD*** | ***USA*** ***KD*** | ***Total*** ***KD*** |
|---|---|---|---|---|
| ***At 31 December 2018*** | | | | |
| Cash and bank balances | **2,320,685** | **160,232** | **4,090,350** | **6,571,267** |
| Accounts receivable and other assets | **4,440,142** | **412,532** | **42,852** | **4,895,526** |
| Financial assets at fair value through profit or loss | **-** | **347,648** | **9,374,120** | **9,721,768** |
| | **6,760,827** | **920,412** | **13,507,322** | **21,188,561** |

**19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**19.3 Concentration of financial assets (continued)**

| | *GCC KD* | *Europe KD* | *USA KD* | *Total KD* |
|---|---|---|---|---|
| *At 31 December 2017* | | | | |
| Cash and bank balances | 4,992,663 | 786,189 | 253,853 | 6,032,705 |
| Accounts receivable and other assets | 4,658,194 | 32,187 | 40,564 | 4,730,945 |
| Available-for-sale financial assets | - | 1,259,661 | - | 1,259,661 |
| | 9,650,857 | 2,078,037 | 294,417 | 12,023,311 |

**19.4 Liquidity risk**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. Approximately 6.25% of the Group's debt will mature in less than one year at 31 December 2018 (2017: 11.9%) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

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

| **31 December 2018** | ***Less than 3 months KD*** | ***3-12 months KD*** | ***More than 1 year KD*** | ***Total KD*** |
|---|---|---|---|---|
| Accounts payable and other liabilities (excluding advances) | **7,401,325** | **1,092,866** | **611,975** | **9,106,166** |
| Loans and borrowings | **-** | **4,186,303** | **46,363,805** | **50,550,108** |
| | **7,401,325** | **5,279,169** | **46,975,780** | **59,656,274** |
| 31 December 2017 | | | | |
| Accounts payable and other liabilities (excluding advances) | 4,045,395 | 820,611 | 515,955 | 5,381,961 |
| Loans and borrowings | - | 4,195,701 | 51,763,805 | 55,959,506 |
| | 4,045,395 | 5,016,312 | 52,279,760 | 61,341,467 |

## 19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 19.4 Liquidity risk (continued)

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

| | *Less than 3 months KD* | *3-12 months KD* | *More than 1 year KD* | *Total KD* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 6,571,267 | - | - | 6,571,267 |
| Accounts receivable and other assets | 2,121,085 | 4,140,830 | - | 6,261,915 |
| Financial assets at fair value through profit and loss | - | - | 9,721,768 | 9,721,768 |
| Available-for-sale financial assets | - | - | - | - |
| Investment properties | - | - | 64,487,981 | 64,487,981 |
| Interest in investment in associates | - | - | 24,230,450 | 24,230,450 |
| Furniture and equipment | - | - | 91,408 | 91,408 |
| | 8,692,352 | 4,140,830 | 98,531,607 | 111,364,789 |
| **Liabilities** | | | | |
| Accounts payable and other liabilities | 8,021,854 | 1,092,866 | 611,982 | 9,726,702 |
| Loans and borrowings | - | 2,500,000 | 37,467,159 | 39,967,159 |
| | 8,021,854 | 3,592,866 | 38,079,141 | 49,693,861 |
| **Net liquidity gap** | 670,498 | 547,964 | 60,452,466 | 61,670,928 |

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

| | *Less than 3 months KD* | *3-12 months KD* | *More than 1 year KD* | *Total KD* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 6,032,705 | - | - | 6,032,705 |
| Accounts receivable and other assets | 1,979,331 | 4,240,082 | - | 6,219,413 |
| Available-for-sale financial assets | - | - | 10,891,376 | 10,891,376 |
| Investment properties | - | - | 65,109,210 | 65,109,210 |
| Interest in investment in associates | - | - | 25,608,949 | 25,608,949 |
| Furniture and equipment | - | - | 30,818 | 30,818 |
| | 8,012,036 | 4,240,082 | 101,640,353 | 113,892,471 |
| **Liabilities** | | | | |
| Accounts payable and other liabilities | 4,541,760 | 693,639 | 515,955 | 5,751,354 |
| Loans and borrowings | - | 2,000,000 | 43,367,159 | 45,367,159 |
| | 4,541,760 | 2,693,639 | 43,883,114 | 51,118,513 |
| **Net liquidity gap** | 3,470,276 | 1,546,443 | 57,757,239 | 62,773,958 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20 FAIR VALUE MEASUREMENT

**Fair value hierarchy**

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

### 20.1 Financial instruments

The following tables provide the fair value measurement hierarchy of the Group's financial assets:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| *31 December 2018* | *Total KD* | *Quoted prices in active markets (Level 1) KD* | *Significant observable inputs (Level 2) KD* | *Significant unobservable inputs (Level 3) KD* |
| *Financial assets at fair value through profit or loss* | | | | |
| Unquoted equity securities | 9,721,768 | - | - | 9,721,768 |
| *31 December 2017* | | | | |
| *Available-for-sale financial assets:* | | | | |
| Unquoted equity securities | 104,845 | - | - | 104,845 |

There were no transfers between any levels of the fair value hierarchy during 2018 or 2017.

**Valuation techniques**

The Group invests in structured entities that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a NAV based valuation technique for these positions. The NAV of the investments is adjusted, as necessary, to reflect considerations such as market liquidity discounts and other specific factors related to the investments. Accordingly, such instruments are included within Level 3

For all other financial assets and liabilities, management assessed that the carrying value approximates fair value.

**Reconciliation of Level 3 fair values**

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:

| *31 December 2018* | *At 1 January KD* | *IFRS 9 transition adjustment KD* | *Total gains recognised in profit or loss KD* | *Total gains recognised in OCI KD* | *Net (sales) and purchases KD* | *At 31 December KD* |
|---|---|---|---|---|---|---|
| *Financial assets at fair value through profit or loss:* | | | | | | |
| Unquoted equity securities | - | **10,891,376** | **93,077** | - | **(1,262,685)** | **9,721,768** |

## 20 FAIR VALUE MEASUREMENT (continued)

### 20.1 Financial instruments (continued)

**Reconciliation of Level 3 fair values (continued)**

| *31 December 2017* | *At 1 January* | *Total losses recognised in profit or loss* | *Total gains recognised in OCI* | *Net (sales) and purchases* | *At 31 December* |
|---|---|---|---|---|---|
| *Available-for-sale financial assets:* | | | | | |
| Unquoted equity securities | 572,604 | - | 62,916 | (530,675) | 104,845 |

* Due to a change in accounting policy, investment securities measured at cost less impairment (in accordance with IAS 39) amounting to KD 10,786,531 were recognised in Level 3 for the first time.

**Description of significant unobservable inputs to valuation:**
The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

| **Significant unobservable valuation inputs** | **Range** | **Sensitivity of the input to fair value** |
|---|---|---|
| Discount for lack of marketability (DLOM) | 20% | 10% (2017: 10%) increase (decrease) in the discount would decrease (increase) the fair value by KD 925,541 |

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

### 20.2 Non-financial instruments

The following tables provide the fair value measurement hierarchy of the Group's non-financial assets:

| | | **Fair value measurement using** | | |
|---|---|---|---|---|
| ***31 December 2018*** | ***Total KD*** | ***Quoted prices in active markets (Level 1) KD*** | ***Significant observable inputs (Level 2) KD*** | ***Significant unobservable inputs (Level 3) KD*** |
| Investment properties | **64,487,981** | **-** | **-** | **64,487,981** |
| *31 December 2017* | | | | |
| Investment properties | 65,109,210 | - | - | 65,109,210 |

There were no transfers between any levels of the fair value hierarchy during 2018 or 2017.

Reconciliation for recurring fair value measurement of investment properties categorised within Level 3 of the fair value hierarchy is disclosed in Note 8.

## 20 FAIR VALUE MEASUREMENT (continued)

### 20.2 Non-financial instruments (continued)

There were no other changes in valuation techniques during the year. The table below illustrates the valuation techniques used to derive to Level 3 fair values and the significant unobservable inputs used in the fair value measurement of investment properties.

| *Valuation technique* | ***Fair value 2018 KD*** | *Fair value 2017 KD* | *Key unobservable inputs* | ***Range 2018*** | *Range 2017* |
|---|---|---|---|---|---|
| Income capitalisation approach | **28,078,813** | 28,425,726 | ▸ Average rent (per sqm) (KD) | **21 - 70** | 9.4 - 72.2 |
| | | | ▸ Yield rate (%) | **4.52%-20.75%** | 3.21% - 21.52% |
| Market comparison approach | **36,409,168** | 36,683,484 | ▸ Price (per sqm) (KD) | **165 - 10,587** | 164 - 1,424 |

***Sensitivity analysis***
Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties located in Kuwait.

| | *Changes in valuation assumptions* | *Impact on profit for the year* | |
|---|---|---|---|
| | | ***2018 KD*** | *2017 KD* |
| Average rent | +/- 5% | **1,403,941** | 1,421,286 |
| Yield rate | +/- 50 bp | **2,132,021** | 2,529,970 |
| Price per sqm | +/- 5% | **1,306,800** | 1,655,294 |

## 21 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, transact with treasury shares, issue new shares, or sell assets to reduce debt.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt interest-bearing loans and borrowings, less cash and bank balances. For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Parent Company.

## 21 CAPITAL MANAGEMENT (continued)

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Interest-bearing loans and borrowings | **39,967,159** | 45,367,159 |
| Less: Cash and bank balances | **(6,571,267)** | (6,032,705) |
| **Net debt** | **33,395,892** | 39,334,454 |
| Capital | **61,670,928** | 62,773,958 |
| **Capital and net debt** | **95,066,820** | 102,108,412 |
| Gearing ratio | **35%** | 39% |

## 22 COMMITMENTS AND CONTINGENCIES

*Capital commitments*
As at 31 December 2018, the Group had ongoing construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment properties under development of KD 6,615,652 (2017: KD 7,739,851). There are no contractual commitments in respect of completed investment properties.

*Operating lease commitments – Group as a lessor*
The Group has entered into operating leases on its investment property portfolio. These leases have terms of between one and two years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions.

Future minimum rentals receivable under operating leases as at 31 December are, as follows:

| | *2018* *KD* | *2017* *KD* |
|---|---|---|
| Within one year | **907,030** | 1,189,107 |
| After one year, but not more than 5 years | **61,789** | - |
| | **968,819** | 1,189,107 |

*Operating lease commitments – Group as a lessee*
The Group has entered into an operating lease for rental space, with a rental term of five years. The Group has the option to lease the asset for a similar term.

*Legal claim contingency*
The Group operates in the real estate industry and is subject to legal disputes with tenants in the normal course of business. Management does not believe that such proceedings will have a material effect on its results and financial position.

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