



**Commercial Real Estate Company K.P.S.C.  
And Subsidiaries  
State of Kuwait**

**Consolidated Financial Statements and Independent Auditors' Report  
For the year ended 31 December 2017**

**Consolidated Statement of Financial Position as at 31 December 2017**

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## **INDEPENDENT AUDITOR'S REPORT**

TO THE SHAREHOLDERS OF COMMERCIAL REAL ESTATE COMPANY K.P.S.C.

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Commercial Real Estate Company K.P.S.C (the "Parent Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, 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 the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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. The following are the key audit matters identified and how we addressed them in our audit.

##### *Valuation of investment properties*

The Group's investment properties are commercial and residential properties and comprise majority of the assets in the consolidated statement of financial position. The disclosures relating to the investment properties are given in notes (2.3.3) and (6).

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material change, warrants specific audit focus in this area. The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues for that particular property. The valuations are carried out by independent third party valuers appointed by the Group management. The independent valuers are licenced from the relevant regulatory bodies and have appropriate qualifications and experience in valuation of properties at the relevant locations. In determining a property's valuation the valuers take into account property specific current information such as the tenure and tenancy details for each property, prevailing market yields and comparable market transactions.



## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF COMMERCIAL REAL ESTATE COMPANY K.P.S.C. (Continued)

We assessed the competence, capabilities and objectivity of the firms. We also discussed the scope of their work and reviewed the terms of their engagement in order to check that there were no unusual terms or fee arrangements. We tested the data inputs underpinning the investment property valuation for a sample of properties, including rental income, by agreeing them back to supporting documentation to assess the reliability, completeness and accuracy of the underlying data. We also compared a sample of the valuations to our independently formed market expectations and challenged any differences. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices.

### *Valuation of unquoted investment securities*

Unquoted investment securities primarily comprise of investments in private equities managed by others and real estate funds. These investments are valued using methodologies agreed by management and there are key inputs to the valuation calculations which reflect management's judgement as disclosed in significant accounting policy 2.3.5, critical accounting estimates, and notes 8 and 10 to the consolidated financial statements. There is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unquoted investment securities being materially misstated.

As part of our audit procedures, we tested the design and implementation of controls around the valuation of unquoted investment securities. In addition we tailored our substantive testing to reflect the different categories of unquoted investment securities held in the portfolio. This testing included reviewing and challenging management's valuations for a sample of unquoted investment securities, focusing on the appropriateness of the valuation methodology and assumptions used within the calculations (e.g. cash flow projections; growth projections; discount rate used).

### **Other Information**

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon. The annual report for the year 2017 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **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 International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.



## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF COMMERCIAL REAL ESTATE COMPANY K.P.S.C. (Continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statement. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF COMMERCIAL REAL ESTATE COMPANY K.P.S.C. (Continued)

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016 and its Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2017 that might have had a material effect on the business of the Group or on its consolidated financial position.



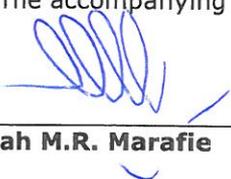
**Talal Y. Al-Muzaini**  
**Licence No. 209A**  
**Deloitte & Touche**  
**Al Wazzan & Co.**

Kuwait  
6 March 2018

**Consolidated Statement of Financial Position as at 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	26,362,918	27,677,136
Investment properties	6	367,511,385	367,463,542
Investments in associates	7	45,313,974	42,229,673
Available for sale investments	8	26,531,681	24,674,581
		<u>465,719,958</u>	<u>462,044,932</u>
<b>Current assets</b>			
Land and real estate held for trading	9	13,782,570	11,778,895
Investments at fair value through profit or loss	10	26,653,077	29,347,879
Receivables	11	10,366,328	8,089,088
Cash and cash equivalents	12	2,837,430	3,483,272
		<u>53,639,405</u>	<u>52,699,134</u>
<b>Total assets</b>		<u>519,359,363</u>	<u>514,744,066</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	13	178,708,714	178,708,714
Share premium		1,308,384	1,308,384
Treasury shares	14	(2,208,386)	(2,117,879)
Statutory reserve	15	35,418,545	33,922,277
Voluntary reserve	16	27,067,865	26,319,731
Other reserves	17	7,753,369	7,530,000
Retained earnings		42,224,332	39,048,176
<b>Total equity attributable to shareholders of the Parent Company</b>		<u>290,272,823</u>	<u>284,719,403</u>
<b>Non-controlling interests</b>		<u>24,136,788</u>	<u>22,709,860</u>
<b>Total equity</b>		<u>314,409,611</u>	<u>307,429,263</u>
<b>Non-current liabilities</b>			
Employees' end of service indemnity		1,024,530	947,659
Financing from third party - non-current portion	18	153,442,557	153,840,383
		<u>154,467,087</u>	<u>154,788,042</u>
<b>Current liabilities</b>			
Payables	19	19,009,765	23,702,611
Financing from third party - current portion	18	31,472,900	28,824,150
		<u>50,482,665</u>	<u>52,526,761</u>
<b>Total liabilities</b>		<u>204,949,752</u>	<u>207,314,803</u>
<b>Total equity and liabilities</b>		<u>519,359,363</u>	<u>514,744,066</u>

The accompanying notes form an integral part of these consolidated financial statements

  
**Abdul Fatah M.R. Marafie**  
Chairman

  
**Adwan M. Al-Adwani**  
Vice Chairman

**Consolidated Statement of Income for the Year Ended 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>Income</b>			
Rental income of investment properties and hotel's revenue		30,046,104	24,812,276
Operating expenses		(10,967,324)	(10,745,586)
Net income from operating activities	20	19,078,780	14,066,690
Profit from sale of land and real estate held for trading	21	1,210,423	72,783
Change in fair value for investment properties		(1,296,373)	5,715,998
Impairment of land and real estate held for trading		(7,670)	(16,885)
Bargain gain on acquisition of an associate	7	-	4,055,024
Share of results from investment in associates		3,231,919	2,507,600
Profit from financial investments	22	6,388,806	1,312,517
Other income		272,915	156,419
<b>Total income</b>		<b>28,878,800</b>	<b>27,870,146</b>
<b>Expenses and other charges</b>			
Staff costs		(2,522,399)	(2,604,101)
Expenses and other charges		(898,469)	(1,057,699)
Finance costs		(8,114,177)	(5,926,140)
Provisions and impairment	23	(417,293)	(542,391)
<b>Total expenses</b>		<b>(11,952,338)</b>	<b>(10,130,331)</b>
<b>Net profit before deductions</b>		<b>16,926,462</b>	<b>17,739,815</b>
Contribution to KFAS		(98,452)	(82,694)
National Labour Support Tax		(368,586)	(405,156)
Zakat		(111,344)	(103,873)
Board of directors' remuneration		(128,000)	(128,000)
<b>Net profit for the year</b>		<b>16,220,080</b>	<b>17,020,092</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		14,256,299	15,287,068
Non-controlling interests		1,963,781	1,733,024
		<b>16,220,080</b>	<b>17,020,092</b>
<b>Earnings per share for Parent Company's shareholders(fil)</b>	24	<b>8.09</b>	<b>8.67</b>

The accompanying notes form an integral part of these consolidated financial statements

**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2017**

	Kuwaiti Dinars	
	2017	2016
<b>Net profit for the year</b>	16,220,080	17,020,092
<b>Other Comprehensive Income</b>		
<i>Items that may be reclassified subsequently to statement of income:</i>		
Change in fair value of available for sale investments	(524,063)	(1,569,316)
Group's share in associates' reserves	767,673	(98,414)
Foreign currency translation differences	9,424	70,069
<b>Total other comprehensive income/(loss)</b>	253,034	(1,597,661)
<b>Total comprehensive income for the year</b>	16,473,114	15,422,431
<b>Attributable to:</b>		
Shareholders of the Parent Company	14,479,668	13,754,192
Non-controlling interests	1,993,446	1,668,239
	16,473,114	15,422,431

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2017

Kuwaiti Dinars

	Equity Attributable to Shareholders of the Parent Company							Non- controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (Note 17)	Retained earnings		
<b>Balance as at 1 January 2016</b>	178,708,714	1,308,384	(2,058,200)	32,321,599	25,519,392	9,062,876	33,934,717	39,571,131	318,368,613
Purchase of treasury shares	-	-	(59,679)	-	-	-	-	-	(59,679)
Acquisition of additional share in subsidiary (note 25)	-	-	-	-	-	-	1,067,356	(17,955,270)	(16,887,914)
Subsidiary's cash dividends	-	-	-	-	-	-	-	(574,240)	(574,240)
Cash dividends (note 26)	-	-	-	-	-	-	(8,839,948)	-	(8,839,948)
Transactions with owners	178,708,714	1,308,384	(2,117,879)	32,321,599	25,519,392	9,062,876	26,162,125	21,041,621	292,006,832
Net profit for the year	-	-	-	-	-	(1,532,876)	15,287,068	1,733,024	17,020,092
Other comprehensive income	-	-	-	-	-	(1,532,876)	-	(64,785)	(1,597,661)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(1,532,876)	15,287,068	1,668,239	15,422,431
Transferred to reserves	-	-	-	1,600,678	800,339	-	(2,401,017)	-	-
<b>Balance as at 31 December 2016</b>	178,708,714	1,308,384	(2,117,879)	33,922,277	26,319,731	7,530,000	39,048,176	22,709,860	307,429,263
<b>Balance as at 1 January 2017</b>	178,708,714	1,308,384	(2,117,879)	33,922,277	26,319,731	7,530,000	39,048,176	22,709,860	307,429,263
Purchase of treasury shares	-	-	(90,507)	-	-	-	-	-	(90,507)
Acquisition of additional share in subsidiary (note 25)	-	-	-	-	-	-	1,051	(2,551)	(1,500)
Subsidiary's cash dividends	-	-	-	-	-	-	-	(563,967)	(563,967)
Cash dividends (note 26)	-	-	-	-	-	-	(8,836,792)	-	(8,836,792)
Transactions with owners	178,708,714	1,308,384	(2,208,386)	33,922,277	26,319,731	7,530,000	30,212,435	22,143,342	297,936,497
Net profit for the year	-	-	-	-	-	-	14,256,299	1,963,781	16,220,080
Other comprehensive income	-	-	-	-	-	223,369	-	29,665	253,034
Total comprehensive income for the year	-	-	-	-	-	223,369	14,256,299	1,993,446	16,473,114
Transferred to reserves	-	-	-	1,496,268	748,134	-	(2,244,402)	-	-
<b>Balance as at 31 December 2017</b>	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	7,753,369	42,224,332	24,136,788	314,409,611

The accompanying notes form an integral part of these consolidated financial statements

**Consolidated Statement of Cash Flows for the Year Ended 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>Cash flows from operating activities</b>			
Net profit for the year		16,220,080	17,020,092
<i>Adjustments for:</i>			
Change in fair value of investment properties		1,296,373	(5,715,998)
Profit from sale of land and real estate held for trading		(1,202,753)	(55,898)
Share of results from investment in associates		(3,231,919)	(6,562,624)
Profits from financial assets	22	(6,388,806)	(1,312,517)
Depreciation		1,830,490	1,738,264
Finance cost		8,114,177	5,926,140
Provisions and impairment		417,293	542,391
Employees' end of service indemnity – provided during the year		205,289	112,259
Operating profits before changes in the working capital		17,260,224	11,692,109
Payment to acquire investment properties		(1,344,216)	(2,887,263)
Purchase of land and real estate held for sale		(3,255,928)	(3,116,845)
Proceeds from sale of land and real estate held for trading		2,454,916	260,463
Receivables		(5,759,355)	(2,149,148)
Payables		(5,013,395)	(1,429,882)
Cash generated from operations activities		4,342,246	2,369,434
Employees' end of service indemnity – paid during the year		(128,418)	(365,462)
Net cash generated from operating activities		4,213,828	2,003,972
<b>Cash flows from investing activities:</b>			
Payment for purchase of property, plant and equipment		(222,124)	(509,948)
Payment to acquire an additional share in subsidiaries	25	(1,500)	(16,887,914)
Payment to acquire shares in associates		(126,562)	(8,410,639)
Dividends received from associates		2,486,093	1,995,762
Payment to acquire available for sale investments		(2,353,437)	(5,096,124)
Proceeds on sale of available for sale investments		272,913	260,674
Proceeds on sale of investments at fair value through profit or loss		8,751,698	58,552
Payment to acquire investments at fair value through profit or loss		(2,061,276)	(3,432,314)
Cash dividend received		2,473,708	2,430,953
Net cash generated from/(used in) in investing activities		9,219,513	(29,590,998)
<b>Cash flows from financing activities:</b>			
Financing from third party		2,250,924	38,964,282
Payment for buy-back of treasury shares		(90,507)	(59,679)
Cash dividend paid		(8,378,114)	(8,543,674)
Finance cost paid		(7,306,943)	(5,792,566)
Non-controlling interests		(563,967)	(574,240)
Net cash (used in)/generated from financing activities		(14,088,607)	23,994,123
<b>Net change in cash and cash equivalents</b>		<b>(655,266)</b>	<b>(3,592,903)</b>
Effect of foreign currency translation		9,424	70,069
<b>Cash and cash equivalents at beginning of the year</b>		<b>3,483,272</b>	<b>7,006,106</b>
<b>Cash and cash equivalents at end of the year</b>	12	<b>2,837,430</b>	<b>3,483,272</b>

The accompanying notes form an integral part of these consolidated financial statements

**Notes to the Consolidated Financial Statements - 31 December 2017**

**1. Incorporation and activities**

The Commercial Real Estate Company (K.P.S.C) ("the Parent Company") was incorporated as a Kuwaiti Shareholding Closed Company under Articles of Association No. 104/ M/ Vol.1 on 4 February 1968 under Commercial register No. 11329 and re-enrolled on 21 December 1981 under No. 239 in accordance with provision of the Commercial Companies Law. The main objectives of the Company are performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and building constructions including sale, purchase and lease of land and real estate properties and construction of buildings, utilize the company's surpluses through investment portfolios managed by specialized companies and financial institutions; and establishing and managing real estate funds for its own account and for third parties. The Company may have interests or participate in any suitable way with entities that engage in similar business activities or that may help the Company achieve its objectives inside Kuwait and abroad. The Company may also purchase such entities or affiliate them, or as stated in Company's Articles of Association, article No. 5 and Memorandum of Association, article No. 4. The Company's management shall carry out all its objectives for which it has been established in accordance with the Noble Islamic Sharia principles.

The head office of the Parent Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company's Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The Parent Company has been registered in the Borsa Kuwait on 21 December 2004.

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries set out in note (25), ("together referred to as the Group").

The consolidated financial statements were authorized for issue by the Board of Directors on 6 March 2018.

**2. Basis of preparation and significant accounting policies**

**2.1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are re-measured at fair value, as explained in the accounting policies below. These accounting policies of the Group have been consistently applied to all years presented, except as stated in note 2.2 in relation to adoption of new and revised International Financial Reporting Standards.

**2.2 Application of new and revised International Financial Reporting Standards (IFRS)**

**2.2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements**

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on the Group's financial statements.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's financial statements.

**Notes to the Consolidated Financial Statements - 31 December 2017**

- Annual Improvements to IFRSs 2014 – 2016 Cycle covering amendments to IFRS 12.

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

- Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

**2.2.2 New and revised IFRS in issue but not yet effective**

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
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Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
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Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
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IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
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The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
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The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

Notes to the Consolidated Financial Statements - 31 December 2017

New and revised IFRSs

Effective for annual periods  
beginning on or after

Amendments to IAS 40 *Investment property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

1 January 2018

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (a)

1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

**New and revised IFRSs**

**Effective for annual periods  
beginning on or after**

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

1 January 2018

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

1 January 2018

*IFRS 16 Leases*

1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Notes to the Consolidated Financial Statements - 31 December 2017

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> : Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IFRS 7 <i>Financial Instruments</i> : Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2011)</i> relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

## 2.3 Significant accounting policies

### 2.3.1 Basis of consolidation

#### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control over the subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date in which the Parent Company gains control until the date when Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the 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 into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**Notes to the Consolidated Financial Statements - 31 December 2017**

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, or the cost on initial recognition of an investment in an associate or a joint venture.

Where applicable, adjustments are made to bring the accounting policies of the subsidiary in line with those of the Group. The difference in reporting date of the subsidiary and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

**Business combinations**

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests that have previously been recognised in the consolidated statement of other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were fully disposed off.

**Goodwill**

Goodwill, arising on an acquisition of a subsidiary, is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

## Notes to the Consolidated Financial Statements - 31 December 2017

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 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 results of business, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except for any investment classified as investment held for sale, as it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and any other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate, (including any long-term interests represent a part of the Group's net investment in an associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Upon acquisition of an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate, recognised at the date of acquisition, is recognised as goodwill. Goodwill is included within the carrying amount of the investment in an associate. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the consolidated statement of income .

Requirements of IAS 39 are applied to determine whether it is necessary to recognize the impairment losses of the associates. The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the requirements of IAS No. (36) "Impairment of Assets."

Where applicable, adjustments are made to bring the accounting policies of the associate in line with those of the Group. The difference in reporting date of the associate and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associates are recognised in group financial statement only to the extent of interests in the associate, that are not related to the group.

### 2.3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any subsequent accumulated impairment losses. Cost includes the purchase price and any directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, these expenditures are capitalised

Property, plant and equipment depreciation is calculated using the straight line method on the basis of estimated useful lives except for land which is carried at cost less impairment losses. Property, plant and equipment amount is written down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period. Change in estimations are accounted for as of the beginning of the financial year in which the change arises.

**Notes to the Consolidated Financial Statements - 31 December 2017**

Gains or losses on disposals of property, plant, and equipment are determined by the difference between the sales proceeds and the net carrying amount of the asset and is recognized in the consolidated income statement.

**2.3.3 Investment properties**

Investment properties are properties held to earn rentals and / or capital appreciation (including properties under construction for such purposes). Investment properties are measured initially at cost, including transaction costs

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in consolidated statement of income in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss arising on disposal of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income for the period in which they arise.

**2.3.4 Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal or value in use. Impairment losses are recognised in the consolidated statement of income for the year in which they arise. When an impairment is reversed, the impairment is recognised to the extent of the net carrying amount had no impairment been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

**2.3.5 Financial instruments**

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of income.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The Group has determined the classification of its financial assets as follows:

*Financial assets as fair value through profit or loss*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gains or losses arising from remeasurement recognised in the consolidated statement of income. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The net gain or loss recognised in the consolidated statement of income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in (note 3.3).

**Notes to the Consolidated Financial Statements - 31 December 2017**

*Available for sale financial assets (AFS)*

AFS are non-derivatives financial assets not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

The available for sale financial assets is re-measured at fair value. The fair value is determined in the manner described in (note 3.3).

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income items.

*Loans and debtors*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash at banks) are measured at amortised cost using the effective interest method, less any impairment.

*Impairment in value*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced by making an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the consolidated statement of income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the consolidated statement of income for the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in the consolidated statement of income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

**Notes to the Consolidated Financial Statements - 31 December 2017**

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

The difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the consolidated statement of income.

**Financial liabilities**

Financial liabilities (including borrowings and trade and other payables) are recognised initially at fair value, net of transaction costs incurred and remeasured at amortised cost using the effective interest method.

*Derecognition*

The Group derecognises financial liabilities only when the Group's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of income.

*Offsetting*

Financial assets, financial liabilities and the net amount reported in the consolidated statement of financial position are only offset when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis or realise the asset and settle the liability simultaneously.

**2.3.6 Land and real estate held for trading**

Land and real estate held for trading are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate, where the cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate held for trading are classified under current assets and are valued at the lower of cost or net realisable value on an individual basis. Net realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains or losses from the sale of land and property held for trading are reported in the consolidated statement of income by the difference between sale value and its book value.

Incurred costs are charged to additions under land and real estate which include all direct costs and other costs attributable on a reasonable basis. At the time of completion this is classified as property plant and equipment, investment properties or trading properties.

Land and properties under development to be used as investment property are considered as investment properties recognized at cost and then re-measured at fair value through accredited independent valuers where the lower valuation is adopted. In case there is no reliable method for measuring the fair value of such land under development, the properties are recognized at cost till the date of completion of developing the property or the date of reliably determining their fair value, whichever occurs first.

**2.3.7 Employees' end of service indemnity**

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment. Regarding the Non-Kuwaitis labour in other countries; the indemnity is calculated based on law applicable in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of employees on the consolidated financial statement's date. The management expects that this method would result in a reliable approximation of the present value of the Group's liability.

Notes to the Consolidated Financial Statements - 31 December 2017

**2.3.8 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**2.3.9 Equity, reserves and dividend payments**

Issued ordinary shares are recorded within equity. Direct costs relating to issuing of shares are reduced from the amounts received for issuing these shares within equity under share premium. Share capital represent the nominal value of the shares issued.

Dividends are recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

**2.3.10 Treasury shares**

Treasury shares represent the Parent Company's own shares that have been issued, subsequently purchased by the Group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the total cost of the shares acquired is reported as a contra account within equity when the treasury shares are disposed; gains are credited to a separate undistributable account in equity "gain on sale of treasury shares". Any realised losses are charged to the same account in the limit of its credit balance, any additional losses are charged to retained earnings to reserves and then to premium. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and the gain on sale of treasury shares.

**2.3.11 Foreign currencies**

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD).

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the income statement.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows (other than companies, which are operating in high inflation countries):

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated financial statements.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognized as a separate component of equity.

**Notes to the Consolidated Financial Statements - 31 December 2017**

**2.3.12 Revenue recognition**

Gains and losses resulting from the sale of financial investments, investment property and land and real estate held for trading are recognised in consolidated statement of income when sale is completed. Sale is completed when the risks and rewards related to the assets sold are transferred to the buyer.

Rental income from investment property are recorded as mentioned in note (2.3.14).

Hotel income is recognized when the services are performed and completed for clients.

Dividends income resulting from investment is recognized in the consolidated statement of income when the right to receive them is established.

**2.3.13 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**2.3.14 Leasing**

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

*The Group as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

*The Group as lessee*

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

**2.3.15 Taxation**

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

The contribution to KFAS is calculated at 1% of taxable profit of the group in accordance with the modified calculation based on the Foundation, 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 in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

**Zakat**

Responsibility of paying zakat lies on the shareholders and not the Parent Company.

The Group calculates zakat in accordance with the Ministry of Finance resolution No. 46 of 2006. They are recognized as expense in the relevant period on accrual basis.

Notes to the Consolidated Financial Statements - 31 December 2017

**3. Financial risk management**

**3.1 Financial risks**

The Group's activities expose it to a variety of financial risks, which are market risks (which include foreign currency risks and risks of fair value resulting from interest rates, and risks of fluctuations in cash flows resulting from changes in interest rates, and market prices risks) in addition to credit risk and liquidity risks.

The Group's Risk Management focuses on the unpredictable issues in the financial markets in order to reduce the potential negative impact on the financial performance of the Group to the minimum. The Group currently does not use hedging instruments to manage its exposure to these risks.

**A) Market risk**

*Foreign currency risk*

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates.

The Group is exposed to this risk as a result of holding financial assets and liabilities in foreign currencies, primarily in US Dollar, Sterling Pound and Bahraini Dinar. The Group's management constantly monitors the change in exchange rates of foreign currencies that might negatively affect the Group's results.

The following is the net positions of foreign currencies denominated in KD as at the consolidated financial statements date:

	2017	2016
US Dollar	26,232,438	24,074,592
Sterling Pound	10,208,641	8,276,608
Bahraini Dinar	28,501,796	26,126,115
Other	18,840,760	20,371,755

The following is the effect of change of foreign exchange rates by 5% against Kuwaiti Dinar, with all other variables are held constant on the Group's equity/consolidated statement of income:

	Kuwaiti Dinars			
	2017		2016	
	Equity	Statement of income	Equity	Statement of income
US Dollar	566,741	744,881	569,859	633,871
Sterling Pound	220,454	289,978	208,090	205,740
Bahrain Dinar	56,925	1,368,165	30,615	1,275,691
Other	142,116	799,922	93,842	924,746

*Profit rate risks*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is not exposed to interest rate risk as the Group works under Noble Principles of Islamic Sharia and the profit rates are fixed during the contractual maturity period.

*Fair value risks*

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the market risk, consist of investment at fair value through statement of income and investments available for sale. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value. The Group maintains its quoted investments with specialized investment companies. Monthly reports on investments performance are sent to the Group management for follow up and decisions making. Effect of the fair value changes in the market prices is considered to be limited relatively to the Group's activity.

Notes to the Consolidated Financial Statements - 31 December 2017

**B) Credit risk**

Credit risk is the risk that the Group will incur a loss due to the inability of one party to the financial instrument to meet its obligation to the Group. The credit policy is monitored on an ongoing basis. The Group seeks to avoid credit concentration with individuals or group of customers in particular location or activity. The assets exposed to credit risk are cash at banks, murabaha at banks and financial institutions, trade receivables and related parties. The Group receives the appropriate guarantees from customers classified under trade receivables. The cash balances are deposited in financial institutions with good credit reputation, and most of the debit balances exposed to credit risk is concentrated in related parties which have a good credit reputation and there are contractual agreements with those parties defining the terms of repayments. The amounts of the assets exposed to credit risk are not materially different from the corresponding carrying values in the consolidated financial statements.

**C) Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, and long-term liquidity management requirements. The Group manages liquidity risk through maintaining adequate basket of assets, which are easily convertible into cash and also by securing banking facilities and financing reserves in addition to ongoing monitoring of the expected and actual cash flows and maturity profile of financial assets and liabilities.

The table below analyses the non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Kuwaiti Dinars			
	2017			
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years
Borrowings	17,052,258	27,191,106	155,903,087	15,040,827
Accounts payable	2,719,416	14,155,109	-	-
	Kuwaiti Dinars			
	2016			
	Within 3 months	From 3 months to one year	1-5 years	More than 5 years
Borrowings	13,204,199	23,000,607	164,282,835	14,557,739
Accounts payable	3,455,282	18,595,794	-	-

**3.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, enabling it to provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure consists of finance obtained from third party less cash and cash equivalents in addition to equity.

The Group manages the capital risk by continuously monitoring the gearing ratio.

The Group's capital structure consists of funding from third parties minus cash and cash equivalents in addition to equity.

Notes to the Consolidated Financial Statements - 31 December 2017

The gearing ratio at year end was as follows:

	Kuwaiti Dinars	
	2017	2016
Financing from third party	184,915,457	182,664,533
Less: cash and cash equivalents	(2,837,430)	(3,483,272)
Net debt	182,078,027	179,181,261
Total equity	314,409,611	307,429,263
Gearing ratio (%)	57.91	58.28

### 3.3 Fair value estimation

The fair values of financial assets and liabilities are estimated as follows:

- Level 1 Quoted prices in active markets for quoted financial instruments.
- Level 2 Quoted prices in an active market for similar instruments. Prices for similar instruments in inactive market. Other valuation methods where all the important inputs are based on comparative market data either directly or indirectly.
- Level 3 Valuation methods in which the inputs that are not based on any comparative market data.

**Fair value of financial assets and liabilities of the Group measured at fair value on a recurring basis:**

	Kuwaiti Dinars		Fair value level	Valuation methods and key inputs	Significant unobservable inputs	Relation of unobservable inputs to fair value
	Fair value as at					
	2017	2016				
<b>Financial assets</b>						
<b>Available for sale investments:</b>						
Quoted shares	927,272	933,371	1	Last bid price	N/A	N/A
Private equity	22,305,872	20,608,605	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher the market risk the lower the fair value
Investment funds	3,298,537	3,132,605	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher the market risk the lower the fair value
<b>Investments at fair value through statement of income:</b>						
Private equity	26,653,077	29,347,879	3	Income approach/market multiple model	Carrying amount adjusted for market risk	Higher the market risk the lower the fair value

**Fair value of financial assets and liabilities of the Group not measured at fair value on a recurring basis:**

	Kuwaiti Dinars			
	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
- Due from related parties	131,182	131,182	137,010	137,010
- Receivables	1,846,922	1,846,922	2,058,653	2,058,653
- Cash and cash equivalents	2,837,430	2,837,430	3,483,272	3,483,272
	4,815,534	4,815,534	5,678,935	5,678,935
<b>Financial liabilities:</b>				
- Financing from third party	184,915,457	183,399,359	182,664,533	181,375,289
- Payables	19,009,765	19,009,765	23,702,611	23,702,611
	203,925,222	202,409,124	206,367,144	205,077,900

**Notes to the Consolidated Financial Statements - 31 December 2017**

The fair values of the financial assets and financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. There are no transfers between fair value levels during the year.

**4. Significant accounting judgements, estimates and assumptions**

In the application of the Group's accounting policies, the management is required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects future periods.

**Judgements:**

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

*Classification of investments*

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at acquisition, when their fair values can be reliably estimated. All other investments are classified as "available for sale".

*Classification of real estate investments*

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

The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business.

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

*Practicing significant influence*

The Group's investments in Industrial and Financial Investment Company and Afkar Holding Company have been classified as associates although the Group only owns 17.24% and 19.35% respectively of their shares.

The Group has significant influence over these entities through its representation in their Board of Directors' by two members out of seven.

**Sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Fair value measurements and valuation techniques*

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group's management determines the appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate. In case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3, 6 and 9).

Notes to the Consolidated Financial Statements - 31 December 2017

*Impairment of tangible and intangible assets*

The Group reviews the tangible and intangible assets on a continuous basis to determine whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Evidence of impairment of investments*

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the value of available for sale investments. The determination of what is "significant" or "prolonged" requires significant judgment in this regard. The Group evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments.

Impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Note 23 sets out the impact of that on the consolidated financial statements.

*Impairment of associates*

Impairment testing of the associate is carried out when there is an indication of such impairment. Impairment is assessed for the entire carrying value of the Group's investment in the associate including goodwill. Note 23 sets out the impact of that on the consolidated financial statements.

*Impairment of receivables*

Impairment of receivables is assessed on the basis of the Group's past experience of probability of collection, an increase in the number of days past due payments beyond the average credit period, as well as observable changes in domestic and international economic conditions that impacts default. Impairment of receivable balances is recognized when there are satisfactory reasons that other parties cannot pay as per the original contractual conditions.

*Contingent liabilities*

Contingent liabilities arise as a result of a past events confirmed only by the occurrence or non-occurrence of one or more of uncertain future events not fully within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment (note 29).

**5. Property, plant and equipment**

	Kuwaiti Dinars					Total
	Land & buildings	Furniture & fittings	Furniture & utensils	Office equipment & tools	Working under progress	
<b>Cost</b>						
Balance at 1 January 2016	26,597,886	10,442,970	3,586,026	1,001,481	212,791	41,841,154
Additions	326,380	31,167	331	152,071	-	509,949
Transfer to investment properties	-	(550)	-	(29,523)	(212,791)	(242,864)
Balance at 31 December 2016	26,924,266	10,473,587	3,586,357	1,124,029	-	42,108,239
Additions	-	321,637	-	194,635	-	516,272
Balance at 31 December 2017	26,924,266	10,795,224	3,586,357	1,318,664	-	42,624,511
<b>Accumulated depreciation</b>						
Balance at 1 January 2016	2,890,741	5,568,548	3,527,017	706,533	-	12,692,839
Depreciation for the year	559,987	1,040,305	43,043	94,929	-	1,738,264
Balance at 31 December 2016	3,450,728	6,608,853	3,570,060	801,462	-	14,431,103
Depreciation for the year	564,940	1,115,549	16,006	133,995	-	1,830,490
Balance at 31 December 2017	4,015,668	7,724,402	3,586,066	935,457	-	16,261,593
<b>Net carrying value</b>						
As at 31 December 2017	22,908,598	3,070,822	291	383,207	-	26,362,918
As at 31 December 2016	23,473,538	3,864,734	16,297	322,567	-	27,677,136
Useful lives (years)	40	5-10	5	3-6	-	

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6. Investment properties

These represent commercial, residential properties and lands most of which are located in the State of Kuwait. The movement in investment properties during the year was as follows:

	Kuwaiti Dinars	
	2017	2016
Balance at 1 January	367,463,542	358,617,417
Additions during the year	1,344,216	2,887,263
Transferred from property, plant and equipment	-	242,864
Change in fair value	(1,296,373)	5,715,998
Balance at 31 December	<u>367,511,385</u>	<u>367,463,542</u>

The fair value of the Group's investment properties as at 31 December 2017 are estimated based on valuations carried out by independent valuers not related to the Group. The independent valuers are licensed from the relevant regulatory bodies and have appropriate qualifications and experience in valuation of properties at the relevant locations.

The fair value of investment properties was determined using the net income capitalisation rate method, using market rental income of all units of the properties and is classified as Level 3. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. The valuation model used involves significant unobservable inputs including the average capitalisation rate. Average capitalisation rate used in valuation taking into account the capitalisation of rental income, nature of the property and prevailing market conditions is 7.5% (31 December 2016: 7.5%)

An increase in the capitalisation rate used would result in a decrease in the fair value, and vice versa.

In estimating the fair value of the investment properties, their current use was assumed to be highest and best use of these properties.

Investment properties include properties of KD 282,711,612 as at 31 December 2017 (31 December 2016 - KD 282,005,260) pledged to local financial institutions as collateral for finance obtained by the Group (note 18).

7. Investments in associates

7.1 Financial information

Company	Country of incorporation	Principal activity	Ownership %		Kuwaiti Dinars	
			2017	2016	2017	2016
Hajar Tower Real Estate Co.	Kuwait	Real Estate	27.42	27.42	9,988,876	11,009,371
Kuwait Resorts Co.	Kuwait	Services	33.75	33.10	8,654,686	7,682,571
Bayan Real Estate Co.	Saudi Arabia	Real Estate	21.68	21.68	2,887,696	3,082,062
Afkar Holding Co.	Kuwait	Holding				
Kuwait Commercial	Kuwait	Company	19.35	19.35	2,899,327	2,794,532
Markets Complex Co.	Kuwait	Real Estate	22.84	22.84	2,505,831	2,057,964
Gulf Opportunities Co.	Kuwait	Real Estate	43.00	43.00	904,459	904,459
Al Jahra Tourism Co.	Kuwait	Tourism	44.87	44.87	11,468,994	10,215,567
Vacation Club Venture	Emirates	Real Estate	30.00	30.00	3,823,383	3,943,174
Waves Budaiya Development Co.	Bahrain	Real Estate	36.00	-	1,464,409	-
Other					716,313	539,973
					<u>45,313,974</u>	<u>42,229,673</u>

All investments above are accounted for using equity method in these consolidated financial statements.

Kuwait Resorts Company is quoted in an active market and has a fair value of KD 4,228,686 as at 31 December 2017 (31 December 2016: KD 4,797,157).

Summarised financial information in respect of each of the Group's material associates are stated below.

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The summarised financial information below represents the amounts shown in the associate latest available financial statements prepared in accordance with International Financial Reporting Standards:

**Kuwait Resorts Co.**

	Kuwaiti Dinars	
	2017	2016
Current assets	20,934,435	17,437,674
Non-current assets	17,176,552	20,085,474
Current liabilities	8,336,558	6,113,679
Non-current liabilities	3,680,932	8,016,650

	Kuwaiti Dinars	
	2017	2016
Revenue	7,999,906	8,430,060
Profit for the year/total comprehensive income	2,473,060	1,736,906
Dividends received from associate during the year	294,432	294,432

**Hajar Tower Real Estate Company**

	Kuwaiti Dinars	
	2017	2016
Current assets	22,086,207	24,846,039
Non-current assets	38,410,410	40,652,116
Current liabilities	11,438,473	11,330,683
Non-current liabilities	12,377,200	13,458,267

	Kuwaiti Dinars	
	2017	2016
Revenue	16,689,006	18,170,862
Profit for the year/total comprehensive income	2,212,077	3,806,870
Dividends received from associate during the year	1,375,600	1,240,800

**Al Jahra Tourism Co.**

	Kuwaiti Dinars	
	2017	2016
Current assets	5,879,254	2,129,353
Non-current assets	22,332,499	23,384,505
Current liabilities	2,352,487	1,777,763
Non-current liabilities	300,217	1,076,601

	Kuwaiti Dinars	
	2017	2016
Revenue	7,762,293	4,741,436
Profit for the year/total comprehensive income	2,716,292	1,931,199
Dividends received from associate during the year	711,061	355,530

**Aggregate information of associates that are not individually material**

	Kuwaiti Dinars	
	2017	2016
The Group's share of income from continuing operations	47,774	60,495
The Group's share of other comprehensive income/(loss) for the year	472,071	(90,038)
The Group's share of total comprehensive income/(loss) for the year	519,845	(29,543)
Aggregate carrying amount of the Group's interest in these associates	15,201,418	13,322,164

**7.2 Changes in holding Percentages**

During the year, procedures of incorporating Waves Budaiya Development Co. W.L.L in which the group owns 36% were completed in Kingdom of Bahrain. This investment was classified as investment in an associate.

Notes to the Consolidated Financial Statements - 31 December 2017

8. Impairment & reversal of impairment

	Kuwaiti Dinars	
	2017	2016
Investment in quoted shares	927,272	933,371
Investment in private equities managed by others	22,305,872	20,608,605
Investment funds	3,298,537	3,132,605
	<u>26,531,681</u>	<u>24,674,581</u>

The fair value estimated based on the valuation techniques is set out in note (3.3).

9. Land and real estate held for trading

	Kuwaiti Dinars	
	2017	2016
Balance as at 1 January	11,778,895	8,866,615
Additions	3,255,928	3,116,845
Sales during the year	(1,244,493)	(187,680)
Impairment loss	(7,760)	(16,885)
Balance as at 31 December	<u>13,782,570</u>	<u>11,778,895</u>

The fair values were determined based on the market comparable approach for the areas in which the properties are located, taking into account the properties nature, location and stage of development and is classified as level 3. In estimating the fair value, their current use was assumed to be the highest and best use of these properties.

10. Investments at fair value through profit or loss

This represent investment in private equities managed by others. The fair values of such investment were estimated based on the investment's managers reports as set out in note (3.3).

11. Receivables

	Kuwaiti Dinars	
	2017	2016
Trade receivables	5,774,418	5,014,085
Due from related parties (note 27)	131,182	137,010
Provision for doubtful debts	(4,514,459)	(4,187,166)
	<u>1,391,141</u>	<u>963,929</u>
Advance payments for acquisition of investments	4,286,210	1,902,233
Advance payment for purchase of land	3,344,997	2,887,034
Advances to contractors and suppliers	612,151	947,510
Prepaid expenses	144,866	156,648
Refundable deposits	351,430	414,230
Other debit balances	235,533	817,504
	<u>10,366,328</u>	<u>8,089,088</u>

Trade receivables include an amount of KD 5,585,602 that is past due and impaired as at 31 December 2017 for which the Group has recognized a provision of KD 4,514,459 (31 December 2016: KD 4,861,011 with a provision of KD 4,187,166).

Aging of past due but not collected trade and other receivables as at 31 December 2017 is as follows:

	Kuwaiti Dinars	
	2017	2016
30 - 60 days	525,771	398,036
60 - 90 days	303,658	225,196
90 - 120 days	107,303	58,912
Above 120 days	4,648,870	4,178,867
	<u>5,585,602</u>	<u>4,861,011</u>

Notes to the Consolidated Financial Statements - 31 December 2017

Movement of provision for doubtful debts for the year:

	Kuwaiti Dinars	
	2017	2016
Balance as at 1 January	4,187,166	4,242,823
Provided during the year	336,372	39,866
Reversal of provision for doubtful debts	(9,079)	(87,723)
Bad debts	-	(7,800)
Balance as at 31 December	<u>4,514,459</u>	<u>4,187,166</u>

**12. Cash and cash equivalents**

	Kuwaiti Dinars	
	2017	2016
Cash at banks and financial institutions	2,797,716	2,635,842
Cash in hand	39,714	26,250
Murabaha at banks and financial institutions (due within 3 months)	-	800,000
Cash at investment portfolios	-	21,180
	<u>2,837,430</u>	<u>3,483,272</u>
Murabaha rate of return (%)	-	1.575

**13. Share capital**

The authorized, issued, and fully paid up in cash share capital of the Parent Company is KD 178,708,714 distributed over 1,787,087,137 shares with a nominal value of 100 fils each, fully paid up in cash.

**14. Treasury shares**

	Kuwaiti Dinars	
	2017	2016
Number of shares	24,566,570	23,462,666
Proportion to issued shares (%)	1.37	1.31
Market value	2,247,841	1,853,551
Cost	2,208,386	2,117,879

The Parent Company is required to retain reserves and retained earnings equivalent to cost of treasury shares during this period they are held by the Parent Company, pursuant to the relevant instructions of the regulatory authorities.

Treasury shares of 13,470,813 shares are held by a subsidiary as of 31 December 2017 (31 December 2016: 13,470,813 shares).

**15. Statutory reserve**

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of net profit for the year, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration, and Zakat is transferred to the statutory reserve. The Parent Company may resolve to discontinue such transfers when this reserve equals 50% of the paid up share capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

**16. Voluntary reserve**

In accordance with the Companies Law and the Parent Company's Articles of Association, a percentage of the net profit for the year, as proposed by the board and agreed by shareholders during the annual general assembly, before contribution to Kuwait Foundation for Advancement of Sciences, National Labour Support Tax, directors' remuneration and Zakat is transferred to the voluntary reserve. Such transfers can be discontinued by a resolution adopted by the general assembly as recommended by the Board of Directors. The Parent Company's Board of Directors has proposed to transfer 5% of the net profit for the year to the voluntary reserve.

Notes to the Consolidated Financial Statements - 31 December 2017

17. Other reserves

	Kuwaiti Dinars				Total
	Change in fair value reserve	Group's share in associates' reserves	Property, plant and equipment revaluation surplus	Translation of foreign currencies	
Balance as at 1 January 2016	3,097,894	195,026	5,547,886	222,070	9,062,876
Total comprehensive (losses)/ income for the year	(1,504,530)	(98,415)	-	70,069	(1,532,876)
Balance as at 31 December 2016	<u>1,593,364</u>	<u>96,611</u>	<u>5,547,886</u>	<u>292,139</u>	<u>7,530,000</u>
Balance as at 1 January 2017	1,593,364	96,611	5,547,886	292,139	7,530,000
Total comprehensive (losses)/ income for the year	(553,728)	767,673	-	9,424	223,369
Balance as at 31 December 2017	<u>1,039,636</u>	<u>864,284</u>	<u>5,547,886</u>	<u>301,563</u>	<u>7,753,369</u>

18. Financing from third parties

Financing from third parties represent murabaha and tawaruq contracts from banking institutions inside and outside of Kuwait

Financing from third parties are analysed as follows:

	Kuwaiti Dinars	
	2017	2016
Current portion	31,472,900	28,824,150
Non-current portion	<u>153,442,557</u>	<u>153,840,383</u>
	<u>184,915,457</u>	<u>182,664,533</u>

Average cost of financing from third parties is 4.39% as at 31 December 2017 (31 December 2016: 3.24%).

The maturities analysis is set out in note (3.1)

The Group obtained finance against the pledge of 245,697,583(31 December 2016: 245,697,583) share of Al Salmia Group (subsidiary) in addition to the following assets:

	Kuwaiti Dinars	
	2017	2016
Property, plant and equipment (Note 5)	25,781,345	27,370,868
Investment properties (Note 6)	<u>282,711,612</u>	<u>282,005,260</u>

19. Payables

	Kuwaiti Dinars	
	2017	2016
Trade payables	1,039,264	1,751,390
Due to related party (Note 27)	189,717	189,717
Retentions	1,317,518	2,788,689
Accrued expenses	4,590,970	3,500,062
Revenues received in advance	2,725,442	6,668,695
Deposits from others	3,661,222	3,931,992
Kuwait Foundation for the Advancement of Science (KFAS)	98,452	82,694
National Labor Support Tax	368,586	405,156
Zakat	111,344	103,873
Dividends payable to shareholders	1,436,940	978,262
Finance claim (Note 29)	1,575,699	1,575,699
Other payables	<u>1,894,611</u>	<u>1,726,382</u>
	<u>19,009,765</u>	<u>23,702,611</u>

Notes to the Consolidated Financial Statements - 31 December 2017

20. Net income from operating activities

	Kuwaiti Dinars	
	2017	2016
Real estate rental income	24,500,820	19,260,149
Hotel's and hospitality revenues	5,545,284	5,552,127
Total revenues	30,046,104	24,812,276
Property expenses	(4,895,887)	(4,674,050)
Hotel and hospitality expenses	(6,071,437)	(6,071,536)
	<u>19,078,780</u>	<u>14,066,690</u>

Hotel expenses include an amount of KD 1,676,026 that represents the current year depreciation of the hotel building and related equipments (31 December 2016 -KD 1,669,980).

21. Profit from sale of land and real estate held for trading

	Kuwaiti Dinars	
	2017	2016
Sale of land and real estate held for trading	2,454,916	260,463
Cost to sell land and real estate held for trading	(1,244,493)	(187,680)
Profit from sale of land and real estate held for trading	<u>1,210,423</u>	<u>72,783</u>

22. Net income on financial investments

	Kuwaiti Dinars	
	2017	2016
<b>Available for sale investments</b>		
Profit on sale	23,222	196,667
Cash dividends	910,807	702,043
	<u>934,029</u>	<u>898,710</u>
<b>Investments at fair value through profit or loss</b>		
Gain /(losses) from change in fair value	3,344,722	(1,315,103)
Cash dividends	1,560,374	1,728,910
Profit on sale	549,681	-
	<u>5,454,777</u>	<u>413,807</u>
	<u>6,388,806</u>	<u>1,312,517</u>

23. Provision and impairment

	Kuwaiti Dinars	
	2017	2016
Finance claim (note 29)	-	1,575,699
Impairment of available for sale investments	90,000	140,466
Reversal of impairment related to investment in associates	-	(1,125,916)
Net movement in provision for doubtful debts	327,293	(47,858)
	<u>417,293</u>	<u>542,391</u>

24. Earnings per share attributable to the Parent Company's shareholders

Earnings per share are calculated by dividing the net profit attributable to shareholders of the Parent Company for the year by the weighted average number of shares outstanding during the year, taking into account the treasury shares weighted average as follows:

	Kuwaiti Dinars	
	2017	2016
Net profit (KD)	14,256,299	15,287,068
Weighted average number of outstanding shares (share)	<u>1,763,215,419</u>	<u>1,763,851,996</u>
Basic earnings per share (fils)	<u>8.09</u>	<u>8.67</u>

Notes to the Consolidated Financial Statements - 31 December 2017

25. Investments in subsidiaries

25.1 The consolidated financial statements include the financial statements of the Parent Company and its affiliated entities as follows:

Company name	Activity	Kuwaiti Dinars		
		Country of incorporation	Shareholding percent (%)	
			2017	2016
Al Mutajara Real Estate Company K.S.C.C.	Real Estate	State of Kuwait	72.22	72.22
Al-Tijaria Real Estate Development Co.	Real Estate	Kingdom of Bahrain	100	100
Al-Salmiya Group for Project Development Company	Real Estate	State of Kuwait	81.90	81.90

Summary of the financial statements of the Group's subsidiaries including significant non-controlling interests is as follows:

**Salmiya Group for Project Development Company**

	Kuwaiti Dinars	
	2017	2016
Current assets	535,911	740,828
Non-current assets	74,399,000	75,000,000
Current liabilities	4,037,213	8,758,001
Non-current liabilities	17,936,008	16,584,866
Equity attributable to shareholders of the Parent Company	43,375,193	41,275,528
Non-controlling interests	9,586,497	9,122,433

	Kuwaiti Dinars	
	2017	2016
Revenue	5,237,815	2,422,606
Expenses	(2,661,609)	(2,442,115)
Profit /(loss) for the year	2,576,207	(19,509)
Profit for the year attributable to shareholders of the Parent Company	2,112,143	406,706
Loss for the year attributable to non-controlling interests	464,064	(426,215)
Total comprehensive income attributable to shareholders of the Parent Company	2,112,143	406,706
Total comprehensive profit/(loss) attributable to non-controlling interests	464,064	(426,215)
Total comprehensive income/(loss) for the year	2,576,207	(19,509)

	Kuwaiti Dinars	
	2017	2016
Net cash flow used in operating activities	(1,617,597)	(163,613)
Net cash flow used in investing activities	(270,370)	(2,716,235)
Net cash flow generated/(used in) financing activities	1,816,225	(1,975,580)
Net change in cash and cash equivalents of the subsidiary	(71,742)	(4,855,428)

**Al Mutajara Real Estate Company**

	Kuwaiti Dinars	
	2017	2016
Current assets	10,735,552	10,129,188
Non-current assets	61,717,125	59,728,099
Current liabilities	3,774,305	1,916,861
Non-current liability	15,694,700	19,003,175
Equity attributable to shareholders of the Parent Company	38,433,381	35,365,824
Non-controlling interests	14,550,291	13,587,427

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	Kuwaiti Dinars	
	2017	2016
Revenue	6,563,645	8,253,377
Expenses	(959,970)	(623,921)
Profit for the year	5,603,672	7,629,456
Profit for the year attributable to shareholders of the Parent Company	4,103,955	5,470,216
Profit for the year attributable to non-controlling interests	1,499,717	2,159,240
Total comprehensive income attributable to shareholders of the Parent Company	4,181,080	5,325,292
Total comprehensive income attributable to non-controlling interests	1,529,382	2,048,416
Total comprehensive income for the year	5,710,462	7,373,708
Dividends paid to non-controlling interests	563,967	574,240
Net cash flow generated/(used in) from operating activities	2,202,262	(1,293,139)
Net cash flow generated/(used in) from investing activities	2,331,484	(16,941,049)
Net cash flow (used in)/generated from financing activities	(4,316,959)	17,950,711
Net change in cash and cash equivalents of the subsidiary	216,787	(283,477)

**26. Dividends**

On 20 March 2017, the General Assembly of the Parent Company's shareholders has approved the consolidated financial statements for the year ended 31 December 2016 and approved to distribute cash dividends of 5% to the shareholders listed on the date of the Annual General Assembly meeting (5% dividends for the year ended 31 December 2016).

For 2018, the Parent Company's Board of Directors proposed cash dividends of 5% for the year ended 31 December 2017. This proposal is subject to the shareholders' approval at the Annual General Assembly Meeting and the regulatory authorities.

**27. Related parties transactions**

Related parties comprise of the Group's shareholders who are members in the board of directors, key management personnel, associates and the companies, in which the company has representatives in their board. Significant related party transactions and resulting balances were as follows:

Transactions	Kuwaiti Dinars	
	2017	2016
Key management remuneration	1,163,597	1,100,030
Bargain purchase (Note 7)	-	2,158,925
Purchase of investments in associate	-	2,852,074
Purchase of investments available for sale	-	3,580,380
Purchase of an additional shares in subsidiary	-	16,737,301
Purchase of lands held for Trading (Note 9)	-	3,116,845
<b>Balances</b>		
Receivables(Note 11)	131,182	137,010
Payables(Note 19)	189,717	189,717
Key management remuneration	926,714	832,873

Balances due from/to related parties are interest-free and payable on demand. All related party transactions are subject to approval of the shareholders' General Assembly.

**28. Capital commitments**

	Kuwaiti Dinars	
	2017	2016
Uncalled capital – investments	1,081,465	1,248,890
Contracts for projects under development	10,858,379	302,553
Other	19,483	37,766
	11,959,327	1,589,209

Notes to the Consolidated Financial Statements - 31 December 2017

29. Contingent liabilities

During the year, the Parent Company was notified that the General Authority for Zakat and Tax in the Kingdom of Saudi Arabia assessed tax for capital gains on a deemed profit basis on the Parent Company and other investors for one of the investments which the Company exited in 2009.

The Parent Company's share in such tax assessment is KD 2,867,000. The Group believes that the value of the tax assessment mentioned in the notice is overestimated. The Group appointed a tax consultant for it in KSA and filed a formal objection to the tax claim. Further, the Group recalculated its share in the tax assessment value. Based on this, the Parent Company recognised a liability provision of KD 1,575,699 in the consolidated statement of income for the year ended 31 December 2016. This amount represents the best estimate of the outstanding liabilities until the value of the final liability is decided.

On the date of the consolidated financial statements, there have been letter of guarantees issued to others amounting to KD 2,995,067 (31 December 2016: KD 2,857,238).

30. Segment information

A segment is a distinguishable component of the group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, class of customers where appropriate are aggregated and reported as reportable segments. The Group is organized into three major business segments; real estate, hotel and investment. These segments results are reported to senior executive management. Further, the Group's operating results, assets and liabilities are reported according to geographical areas, in which it operates. Revenue, profits, assets and liabilities are measured according to the same accounting bases adopted in preparation of the consolidated financial statements.

Business segment analysis in line with internal reports submitted to the management is as follows:

	2017			Total
	Real estate sector	Hotel	Investment sector	
Revenue	24,407,200	5,545,284	9,620,725	39,573,209
Direct cost	(6,172,192)	(6,071,437)	(321,522)	(12,565,151)
Segment results	18,235,008	(526,153)	9,299,203	27,008,058
Unallocated costs				(10,787,978)
Net profit				16,220,080

	2016			Total
	Real estate sector	Hotel	Investment sector	
Revenue	25,040,888	5,552,127	7,875,141	38,468,156
Direct cost	(6,039,287)	(6,071,536)	(832,604)	(12,943,427)
Gross profit	19,001,601	(519,409)	7,042,537	25,524,729
Unallocated costs				(8,504,637)
Net profit				17,020,092

Geographic distribution

	2017			Total
	State of Kuwait	Gulf Countries	Other	
Total income	21,514,134	1,575,460	5,789,206	28,878,800
Total expenses	(9,670,638)	(2,988,082)	-	(12,658,720)
Net profit/(loss)	11,843,496	(1,412,622)	5,789,206	16,220,080

Notes to the Consolidated Financial Statements - 31 December 2017

	2016			
	Kuwaiti Dinars			
	State of Kuwait	Gulf Countries	Other	Total
Total income	25,987,151	1,291,736	591,259	27,870,146
Total expenses	(6,593,923)	(4,216,265)	(39,866)	(10,850,054)
Net profit/(loss)	<u>19,393,228</u>	<u>(2,924,529)</u>	<u>551,393</u>	<u>17,020,092</u>

Geographic distribution of assets and liabilities

	Kuwaiti Dinars			
	Assets		Liabilities	
	2017	2016	2017	2016
State of Kuwait	433,518,178	433,534,903	159,236,634	158,561,482
Gulf countries	44,277,441	43,342,513	45,713,118	48,753,321
Other	41,563,744	37,866,650	-	-
	<u>519,359,363</u>	<u>514,744,066</u>	<u>204,949,752</u>	<u>207,314,803</u>